

Studds Accessories Limited

March 03, 2023

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	53.33 (Reduced from 128.50)	CARE A+; Stable	Reaffirmed
Short-term bank facilities	22.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Studds Accessories Limited (SAL) derive strength from the healthy experience of the promoters and the management team, the company's long and established track record of operations with a dominant market position in the helmet industry and association with reputed clientele. The ratings also factor in SAL's increasing exports during FY22, healthy operating profitability and cash accruals (though moderations witnessed in FY22) and a comfortable financial risk profile marked by strong capital structure and debt coverage indicators and strong liquidity position backed by a well-managed operating cycle.

The long-term rating is however constrained by the susceptibility of margins to raw material price volatility and competition from organized and unorganized players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in its total operating income (TOI) beyond ₹750 crore, PBILDT margin above 20% and ROCE more than 30% on a sustained basis

Negative factors

- Decline in PBILDT margin below 12% on a sustained basis thereby resulting in moderation in debt coverage indicators
- Deterioration in the overall gearing ratio to beyond 0.50 times on a gross debt basis

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that SAL would continue to maintain its dominant position in the helmet industry which would in turn help it to maintain its comfortable financial risk profile.

Analytical approach: Standalone

Key strengths

Experienced promoters and management: Madhu Khurana, Chairman and Managing Director of SAL, has over four decades of experience in the helmet industry. He looks after the overall operations of the company. He is supported by his son, Sidhartha Khurana who has experience of over two decades and is presently associated with SAL as Managing Director. Under the leadership of promoters, SAL has established itself as pan-India helmet brand and has healthy relations with customers and vendors. Over the years, the company has regularly launched new products as well as expanded its geographical footprints in the domestic and exports markets.

Long track record and dominant market position; which is likely to be maintained: SAL has track record of more than four decades in the helmet industry. The company has the largest capacity for manufacturing of helmet in domestic organized segment with capacity of over 1.4 crore helmets per annum as on December 31, 2022. SAL sells helmets under Studds and SMK (premium brand). Under accessories, SAL sells jackets, gloves, luggage box, face shield, visor etc. The company has a long track record of supplying products to some of the well-known OEMs. Getting product approval from OEMs is a time consuming and costly process. Moreover, helmet being a safety and comfort product, domain expertise and brand recall creates entry barrier for new entrants.

Diversified sales channels, reputed clientele and increasing exports: SAL shares long standing relationship with its domestic OEMs and retailers across India. SAL mainly sells through dealers, OEMs, Government canteens, institutional buyers and exports and through its own website. The revenue concentration from top-10 customers remained low at around 35% during

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

FY22 (FY21: 31%) and around 32% in 9MFY23 (UA). In the past two years, SAL has focused on increasing its share in the export market. During FY22, SAL's export share increased to 21% at around ₹ 100 crore (FY21: 11% export share at ₹ 54 crore).

Healthy operating profitability and cash accruals (though moderation witnessed): The PBILDT margins of the company were impacted during FY22 owing to the high raw material prices. A significant proportion of the raw material consumed by the company is derived from crude oil where the prices fluctuate in-line with the price movement in the crude oil. Though some part of the increase in raw material cost was passed on to the customers, as the company implemented a price increase during November 2021, the overall PBILDT margins of the company deteriorated to 12.41% in FY22, compared to 23.36% in FY21. Consequently, SAL reported Gross Cash Accruals of around ₹48 crore during FY22 (₹ 91 crore in FY21) which was utilized to fund its net working capital, scheduled repayment of its long-term debt, capital expenditure and rest was parked in fixed deposits. The return indicators, marked by ROCE, though moderated on a year-on-year basis, remained satisfactory at 12.33% in FY22 (PY: 34.19%). Its operating profitability and return indicators are expected to remain impacted in near term due to cost-side pressures reflected from its 9MFY23 performance.

Strong capital structure and debt coverage indicators: The capital structure of the company remained comfortable marked by overall gearing ratio and TOL/ TNW of 0.15 times and 0.43 times, respectively, as on March 31, 2022 (PY: 0.11x and 0.46x respectively), backed by net worth base of ₹309 crore as on March 31, 2022, and lower reliance on borrowings. SAL had liquid investments and cash and bank balance aggregating ₹39 crore, as on March 31, 2022, and around ₹51 crore, as on December 31, 2022. The capital structure of the company is expected to remain comfortable due to its relatively low reliance on debt on the back of healthy cash flow generation. Moreover, the debt coverage indicators remained strong during FY22 backed by low debt level and healthy profitability resulting in Total Debt/PBILDT of 0.80x (PY: 0.29x) and interest coverage of 18x during FY22(PY: 31x). Though the solvency profile continued to remain comfortable, the same moderated on account of lower profitability generated during the year.

Comfortable operating cycle: SAL extends limited credit period of about seven days credit to dealers and 15-55 days to OEMS. Online sales and institutional orders are mostly on advance payment basis while payment from Government canteens is generally received within 60-90 days. Export sales are mainly on advance payment basis or on sight LCs. Due to higher share of dealers and lower credit period offered, SAL's average collection period remains low at around 15-25 days. Moreover, the company efficiently manages its inventory resulting in inventory period in the range of 20-30 days. SAL generally pays its MSME suppliers within 30 days and its other suppliers in 60 days. Being a market leader, SAL has command over payment terms with customers and suppliers to a larger extent which results into a lean operating cycle thereby resulting in lower working capital requirements.

Industry growth prospects

Demand of helmet can be mainly associated with purchase of new two wheelers and replacement demand. Over the past few years till FY19 the two-wheeler (2W) industry has witnessed healthy growth primarily driven by strong demand from urban as well as rural areas owing to healthy economic scenario. Growing population in urban and rural areas also created the need for regular commuting and thereby pushing the demand for low-cost and fuel efficient 2W. The 2W segment grew by 4% on a y-o-y basis during January 2023. The scooter sub-segment grew by 4.1% and the motorcycle sub-segment grew by 3.7% on y-o-y basis due to improved consumer sentiments. Two-wheeler sales are expected to recover and return to growth mode in 2022-23 after three consecutive years of decline, but the Russia-Ukraine conflict is expected to restrict recovery in two-wheeler sales as it led to higher fuel prices and higher two-wheeler prices. (Source: CARE Ratings).

Demand of helmet is also supported by increase in penetration of helmet which is impacted by awareness (increasingly people wearing helmet for safety and not only to avoid challan) and Government laws. With growing awareness and increasing number of states/cities mandating helmet for pillion riders, demand for helmet is expected to grow steadily which augurs well for dominant industry players like SAL.

Liquidity: Strong

SAL's liquidity remains strong marked by comfortable current ratio of 1.34 times, as on March 31, 2022 (1.37 as on March 31, 2021), NIL utilization of fund-based working capital limits at month end for the trailing 12 months ended February 2023, healthy cash flow from operations of ₹27 crore during FY22 and liquid investments and cash and bank balance aggregating ₹39 crore as on March 31, 2022. As on December 31, 2022, SAL had liquid investments of ₹51 crore as on December 31, 2022 (₹ 43.50 crore as on December 31, 2021). SAL has low term-debt repayment obligation of ₹8-16 crore per annum during the next three years as against envisaged cash accruals in the range of ₹50-119 crore, indicating adequate cushion in its debt servicing. Going forward, SAL's liquidity is expected to remain strong backed by strong generation of cash flow from operations. The company has no major debt-funded capex plans for the future.

Key weaknesses

Exposure to raw material price volatility: Around 50% of SAL's raw materials are derivatives of crude oil; hence the prices of its raw materials vary with the fluctuation in international crude oil prices. SAL enters into short-term contracts with its customers to mitigate any large volatility in raw material prices. Furthermore, SAL has taken a price hike in November-2021 to pass on rising raw material prices; however, no price revision has been done in the current fiscal. On the back of raw material price volatility, its operating profitability margins moderated from 23.36% in FY21 to 12.41% in FY22 and further to 9.44% in 9MFY23.

Exposure to competitive pressure: The domestic helmet industry consists of very few large, organized players i.e., Studds, Steelbird and Vega together accounting for nearly 70-75% market share. SAL faces competition from these organized players and other smaller organized and unorganized players which may have a bearing on its operating profitability margin. However, with increase in share of organized players over last few years, all major organized players have witnessed growth in revenue and better margins. Increase in market share by organized players was at the cost of share of unorganized players which have been severely impacted by implementation of GST. Furthermore, ban of non-ISI helmet from May 2022 is expected to support the growth in the share of the organized players in coming years.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Incorporated in 1983, SAL was promoted by Madhu Bhushan Khurana. The company manufactures helmets and motorcycle accessories for two-wheelers and sells through a network of around 450 dealers across India. SAL is one of the largest helmet manufacturers in India with capacity of over 1.4 crore helmets per annum as on December 31, 2022. The company's manufacturing facilities are located at Faridabad (Haryana).

Brief Financials of SAL- Standalone (₹ crore)	FY21 (A)	FY22 (A)	9MFY23(UA)
Total operating income	481.40	465.95	389.93
PBILDT	112.45	57.81	36.80
PAT	74.00	28.64	17.76
Overall gearing (times)	0.11	0.15	NA
Interest coverage (times)	31.08	18.09	15.79

A: Audited; UA: Un Audited; NA: Not available; Financials are reclassified as per CARE Ratings' standards.

Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	31-10-2026	32.33	CARE A+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	21.00	CARE A+; Stable
Non-fund-based - ST-Working Capital Limits	-	-	-	22.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	32.33	CARE A+; Stable	-	1)CARE A+; Stable (29-Mar-22)	-	-
2	Fund-based - LT-Working Capital Limits	LT	21.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Mar-22)	-	-
3	Non-fund-based - ST-Working Capital Limits	ST	22.00	CARE A1+	-	1)CARE A1+ (29-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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