ELGI Rubber Company Limited

November 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Stable (Double B Plus; Outlook: Stable); Outlook revised from Positive and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4+ and Withdrawn
Fixed Deposit	-	-	Reaffirmed at CARE BB+; Stable (Double B Plus; Outlook: Stable); Outlook revised from Positive and Withdrawn

Details of instruments/facilities in Annexure-1.

Detailed Rationale and key rating drivers

CARE Ratings Ltd. has reaffirmed the outstanding ratings of 'CARE BB+' [Double B Plus] and 'CARE A4+' [A Four Plus] and revised the outlook from 'Positive' to 'Stable', and withdrawn the ratings assigned to the bank facilities and Fixed deposits of ELGI Rubber Company Limited (ERCL) with immediate effect. The above action has been taken at the request of ERCL and 'No Objection Certificates' received from the banks that have extended the facilities rated by CARE Ratings Ltd and 'No Objection Certificates' received from the Fixed deposit holders of ERCL.

Analytical approach: Consolidated

In view of the significant investments and advances extended by the Elgi to its subsidiaries namely Borrachas e Equipamentos Elgi Ltda, Brazil (99.99% shares), Pincott International Pty Limited, Australia (100% shares), Elgi Rubber Company Limited, Kenya (99.99% shares), Elgi Rubber Company Limited, Sri Lanka (99.99% shares), Treadsdirect Limited, Bangladesh (100% shares), Elgi Rubber Company LLC, USA (100% shares), Elgi Rubber Company Holdings B.V., Netherlands (100%) shares, CARE has taken a consolidated view of the companies together for its analysis. The company had extended corporate guarantee to Rubber Resources B.V., Netherlands, Elgi Rubber Company Holdings B.V., Netherlands, Elgi Rubber Company LLC, USA for term loan and working capital limits.

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate capital structure and debt coverage indicators

ERCL has a total debt of Rs. 266.20 crores as on March 31, 2023, which comprises 51.54% of working capital and 45.36% of term loans and around 46.3% debt lies in subsidiaries. Due to losses incurred in past years, with higher debt levels, the overall gearing stood moderate at 1.71x as on March 31, 2023 (PY: 1.57x). The total debt/GCA improved, however stood moderate at 11.08x as on March 31, 2023 (155.49x as on March 31, 2022). The interest coverage also stood moderate at 1.19x in FY23.

Moderate financial performance with losses in FY22 however improved in FY23

ERCL revenue is contributed 61% by its Indian entity and remaining by its subsidiaries in FY23. The weak financial performance of the foreign subsidiaries due to demand slowdown following the covid pandemic, higher raw material prices, higher shipment charges due to shortage of vessels had resulted in net losses for the company in FY22. ERCL reported net loss of Rs.16.35 crore in FY22 as against PAT of Rs.1.07 crore in FY21 at consolidated level. However, the performance improved in FY23 with improved capacity utilization, following recovery in demand for the products along with reduced raw material prices, and aided by the non-operating income from sale of assets. The company reported PBILDT margin of 6.84% in FY23 as against 4.53% in FY22 and reported PAT of Rs.6.80 crores as against net losses of Rs.16.4 crore in FY22. The gross cash accruals increased from Rs.1.59 crore in FY22 to Rs.35.25 crore in 9mFY23.

Profit margins exposed to volatility in raw material prices

The key raw materials used by ERCL are Natural and Synthetic rubber, Carbon black, Steel coil and other rubber chemicals. Natural rubber forms 25-30% of raw material consumption by value while carbon black forms 15-25% of consumption. The price of natural rubber of RSS-3 & RSS-4 grades have been highly volatile due to the result of international trade policies, fluctuations in demand and supply of natural rubber, fluctuation in oil prices and political changes. The PBILDT margins of the company have been volatile in the range of 4.5% to 6.9% over the past three years ended FY23.

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

Key Rating Strengths

Vast experience of promoters

Mr. Sudarsan Varadaraj, the Chairman and Managing Director of the company has over 4 decades of experience in the tyre retreading and rubber reclaim business. His son Mr. Harsha Varadaraj, Whole time director has over 10 years of experience and looks after the Indian operations. The other directors in the company also have experience of 3-4 decades in the rubber industry. Mr. Jairam Varadaraj, director, brother of Mr. Sudarsan Varadaraj is also the managing director of ELGI Equipments Limited which is engaged in air compressor manufacturing such as reciprocating compressors, screw compressors, and centrifugal compressors, and garage equipment for the automotive segment. Mr. Sudarsan Varadaraj is also in the board of the ELGI Equipments Limited. Mr. Jairam Varadaraj is also the former Chairman of the Tamil Nadu State Committee of the Confederation of Indian Industry (CII) and past member of the Southern Region Council of CII.

Established and diversified clientele

The strong track record of the company and vast experience of promoters in the re-treading and reclaim business have aided in establishing a strong customer network. Some of the top customers include major tyre manufacturers such as CEAT Limited (CARE AA; Stable/ CARE A1+), MRF Limited (CARE AAA; Stable/ CARE A1+) etc. The client profile is diversified with the top 5 customers forming 15.2% at consolidated level in FY22 and 17.5% in 9mFY23.

Applicable criteria

- Policy on default recognition
- Consolidation
- 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
Industrials	Capital Goods	Industrial Products	Rubber

ELGI Rubber Company Limited (ELGI) was incorporated in October 2006 under the name of ELGI Aviation Tyres Limited and was renamed as ELGI effective April 7, 2011. ELGI manufactures reclaim rubber, tread rubber, bonding gum and other rubber products used in the Rubber Industry, predominantly in the Tyre sector and it also provides retreading services through a franchisee network. ELGI has six manufacturing units spread across Tamil Nadu and Kerala. The company also has seven wholly owned subsidiaries and two step-down subsidiaries located in various countries, including the Netherlands, Brazil, Kenya, US, Bangladesh, Australia and Sri Lanka. The company is listed on National Stock Exchange (NSE).

Brief Financials (₹ crore)	March 31, 2022(A)	March 31, 2023(A)	Q1 FY24 (UA)
Total operating income	402.4	405.5	105.4
PBILDT	18.2	27.7	15.9
PAT	-16.4	6.8	5.1
Overall gearing (times)	1.57	1.71	NA
Interest coverage (times)	1.17	1.19	NA

A: Audited UA: Unaudited NA: Not Available; 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 last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	10%	2 years	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	May 2027	0.00	Withdrawn
Fund-based - LT-Working Capital Demand loan		-	-	-	0.00	Withdrawn
Fund-based - ST-Bank Overdraft		-	-	-	0.00	Withdrawn
Non-fund-based - LT-Standby Letter of Credit		08-Oct-2021	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+; Positive (22-Mar-23) 2)CARE BB+; Stable (01-Sep-22)	1)CARE BB+; Stable (02-Nov-21)	-
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB+; Positive (22-Mar-23) 2)CARE BB+; Stable (01-Sep-22)	1)CARE BB+; Stable (02-Nov-21)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
3	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)CARE BB+; Positive (22-Mar-23) 2)CARE BB+; Stable (01-Sep-22)	1)CARE BB+; Stable (02-Nov-21)	-
4	Fund-based - ST-Bank Overdraft	ST	-	-	-	1)CARE A4+ (22-Mar-23) 2)CARE A4+ (01-Sep-22)	1)CARE A4+ (02-Nov-21)	-
5	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)Withdrawn (22-Mar-23) 2)CARE A4+ (01-Sep-22)	1)CARE A4+ (02-Nov-21)	-
6	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A4+ (22-Mar-23) 2)CARE A4+ (01-Sep-22)	1)CARE A4+ (02-Nov-21)	-
7	Non-fund-based - LT-Standby Letter of Credit	LT	-	-	-	1)CARE BB+; Positive (22-Mar-23) 2)CARE BB+; Stable (01-Sep-22)	1)CARE BB+; Stable (02-Nov-21)	-
8	Fund-based - ST-EPC/PSC	ST	-	-	-	1)Withdrawn (22-Mar-23) 2)CARE A4+ (01-Sep-22)	1)CARE A4+ (02-Nov-21)	-
9	Fixed Deposit	LT	-	-	-	1)CARE BB+; Positive (22-Mar-23) 2)CARE BB+; Stable (01-Sep-22) 3)CARE BB+; Stable (22-Jun-22)	1)CARE BB+ (FD); Stable (02-Nov-21)	-
10	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)Withdrawn (22-Mar-23) 2)CARE A4+ (01-Sep-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT-Working Capital Demand loan	Simple
5	Fund-based - ST-Bank Overdraft	Simple
6	Non-fund-based - LT-Standby Letter of Credit	Simple
7	Non-fund-based - ST-Letter of credit	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-67543596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-67543444 E-mail: Ankur.sachdeva@careedge.in	Sandeep P Director **CARE Ratings Limited** Phone: +91-044-28497812 E-mail: sandeep.prem@careedge.in Naveen S Assistant Director **CARE Ratings Limited** Phone: +91-0422-4502399 E-mail: naveen.kumar@careedge.in Vishnu Raghavan R Rating Analyst **CARE Ratings Limited** E-mail: Vishnu.Raghavan@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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