

Studds Accessories Limited

February 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	20.81 (Reduced from 53.33)	CARE A+; Stable	Reaffirmed
Short-term bank facilities	6.00 (Reduced from 22.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to the bank facilities of Studds Accessories Limited (SAL) continue to derive strength from its experienced promoters and the management team, company's long and established track record of operations with a dominant market position in the helmet industry and association with diversified and reputed clientele. Ratings take cognisance of full repayment of long-term debt in the current year leading to an improved and strong capital structure. Comfortable debt coverage indicators and strong liquidity position backed by a well-managed operating cycle also strengthen the ratings.

However, the long-term rating is constrained by the susceptibility of margins to raw material price volatility and competition from organised and unorganised players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in its total operating income (TOI) beyond ₹750 crore, profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 20% and return on capital employed (ROCE) more than 30% on a sustained basis.

Negative factors

- Declining PBILDT margin below 12% thereby resulting in moderation in debt coverage indicators on a sustained basis.
- Decreasing liquidity profile of the company; net of debt obligations.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that SAL would continue to maintain its dominant position in the helmet industry which should in turn help it maintain its comfortable financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and management

Madhu Khurana, Chairman and Managing Director of SAL, has over four decades of experience in the helmet industry, and overlooks the company's overall operations 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 and 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 a track record of more than four decades in the helmet industry. The company has largest capacity for manufacturing of helmets in domestic organised segment with capacity of over 1.4 crore helmets per annum as on December 31, 2023. SAL sells helmets under brand Studds and SMK (premium brand). Under accessories, SAL sells jackets, gloves, luggage box, face shield, and visor among others. The company has a long track record of supplying products to some of the well-known original equipment manufacturing (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.

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

Diversified sales channels along with reputed clientele

SAL shares an extensive relationship with its domestic OEMs and retailers across India. SAL mainly sells through dealers, OEMs, Government canteens, institutional buyers, exports and through its own website. The revenue concentration from top-10 customers remained low at around 34% in FY23 (FY22: 35%) and around 33% in H1FY24 (UA).

Improved capital structure and debt coverage indicators marked by nil long-term debt

Company's capital structure remains comfortable marked by overall gearing ratio and total outside liabilities (TOL)/ tangible net worth (TNW) of 0.09x and 0.32x, respectively, as on March 31, 2023 (PY: 0.15x and 0.43x, respectively) and backed by net worth base of ₹334.70 crore as on March 31, 2023, with low reliance on borrowings. The company has entirely repaid the term loan during current fiscal except for negligible vehicle loans as on December 31, 2023. CARE Ratings understands, any requirement for capex will be met by internal accruals, and hence, the capital structure is expected to remain strong.

Stable TOI and profitability

In FY23, company's TOI grew at a stable rate of 8% on a y-o-y basis to ₹504.22 crore from ₹465.69 crore in FY22 majorly driven by increase in volumes.

PBILDT margin continued to remain at a moderate level of 12.95% similar to 12.36% reported in FY22 as against earlier levels of 17-23% mainly because of higher raw material prices.

In H1FY24, SAL reported TOI of ₹261.63 crore (H1FY23: ₹249.25 crore). The PBILDT margin improved to 14.75% in H1FY24 as the raw material prices stabilised.

Healthy operating cycle

SAL extends limited credit period of about seven days 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 basis or on sight LC. 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 into inventory period of 35 days in FY23. SAL pays its micro small & medium enterprises (MSME) suppliers within 30 days and its other suppliers in 60 days. Being market leader, SAL has command over payment terms with customers and suppliers to some extent which results into lean operating cycle. SAL does not require any significant investment in its working capital.

Liquidity: Strong

SAL's liquidity remains strong marked by comfortable current ratio of 1.65x as on March 31, 2023 (1.34 as on March 31, 2022), low utilisation of around 6.5% of fund-based working capital limits for the trailing 12 months ended December 2023 and healthy cash flow from operations of ₹56.24 crore during FY23. As on September 30, 2023, SAL had liquid investments of ₹56.52 crore. Moreover, the company does not have any major term debt repayment obligations in the next three fiscals since the company has entirely repaid its term debt (except for negligible vehicle loans) as against envisaged cash accruals in the range of ₹60-80 crore p.a. in medium term, indicating strong liquidity position. SAL's liquidity is expected to remain strong backed by strong generation of cash flow from operations.

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 short-term contracts with its customers to mitigate any large volatility in raw material prices. Moreover, being market leader, SAL has bargaining power to pass on increase in raw material prices to its customers. However, the same cannot be passed on fully due to increased competition.

Exposure to competitive pressure

The domestic helmet industry consists of very few large, organised players, i.e., Studds, Steelbird and Vega together accounting for majority of the market share. SAL faces competition from these organized players and other smaller organised and unorganised players which may have a bearing on its operating profitability margin. However, with increase in share of organised players over last few years, all major organised players have witnessed growth in revenue and better margins. Increase in market share by organised players was at the cost of share of unorganised players which have been severely impacted by implementation of GST.

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](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components & equipment

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, 2023. The company's manufacturing facilities are located at Faridabad (Haryana).

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	465.69	504.22	261.63
PBILDT	57.55	65.31	38.58
PAT	28.64	33.26	NA
Overall gearing (times)	0.15	0.09	NA
Interest coverage (times)	18.01	22.43	45.39

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
Fund-based - LT-Term loan		-	-	30-09-2026	0.81	CARE A+; Stable
Fund-based - LT-Working capital limits		-	-	-	20.00	CARE A+; Stable
Non-fund-based - ST-Working capital limits		-	-	-	6.00	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 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*	0.81	CARE A+; Stable	-	1)CARE A+; Stable (03-Mar-23)	1)CARE A+; Stable (29-Mar-22)	-
2	Fund-based - LT-Working capital limits	LT	20.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Mar-23)	1)CARE A+; Stable (29-Mar-22)	-
3	Non-fund-based - ST-Working capital limits	ST	6.00	CARE A1+	-	1)CARE A1+ (03-Mar-23)	1)CARE A1+ (29-Mar-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	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 detailsTo 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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