# Metro Tyres Limited

January 03, 2025

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 100.00 | CARE A; Stable | Reaffirmed |
| Short-term bank facilities | 60.00 | CARE A1 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Ratings assigned to bank facilities of Metro Tyres Limited (MTL) continues to derive strength from the company's experienced promoters, diversified product offerings with a strong market position in bicycle, cycle rickshaw tyres and tubes segment, long-standing relationship with Continental AG as demonstrated in off-take agreement and technical collaboration with the latter. Ratings further continue to derive comfort from the company's comfortable financial risk profile marked by low overall gearing and comfortable debt coverage indicators. However, rating strengths are partially offset by weak operational performance in FY24 (refers to April 01 to March 31) characterised by decline in scale of operations and profitability margins considering adverse global factors. Ratings further continue to remain constrained by MTL's elongated operating cycle, susceptibility of margins towards raw material price volatility, foreign currency fluctuations and the company's presence in competitive industry.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Increase in total operating income (TOI) beyond ₹700 crore with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 5.50% and return on capital employed (ROCE) above 17% on a sustained basis.

### Negative factors

- Decline in total income below ₹500 crore.
- Deterioration in total debt (TD)/ PBILDT above 0.80x.
- Elongated operating cycle beyond 100 days on a sustained basis.

## Analytical approach: Standalone

## Outlook: Stable

The "Stable" outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of improvement in scale of operations and profitability margins while maintaining healthy financial risk profile and adequate liquidity.

## Detailed description of key rating drivers:

## Key strengths

### Experienced promoters

MTL, promoted and founded by late Man Singh in 1968, is the flagship company of Metro Group. Rummy Chhabra, the current chairman and managing director and son of late Man Singh, has been associated with the company since 1978 and has over four decades of experience in the tyre industry. He is the president of the Indian Cycle & Rickshaw Tyre Manufacturers' Association. Sumrit Chhabra (whole time director), son of Rummy Chhabra, is involved in the company's day-to-day business affairs since 2008, focusing especially on production and quality control. MTL's management is duly supported by a team of experienced and qualified professionals who are involved in the company's day-to-day operations.

### Long track record with strong market position in cycle tyres and tubes segment

MTL has over five decades' long presence in the tyre industry. The company started its operations as a manufacturer and seller of tyres and tubes for bicycles and cycle rickshaws in 1968 and gradually forayed into bicycle chains, two/three wheelers' tyres, tubes. In April 2019, the company started production of four-wheeler tyres compatible with Tata Ace vehicle and similar commercial vehicles (proportion of which remains negligible currently). MTL holds significant market position in bicycle/ rickshaw tyres segment in replacement market and is a well-recognised brand name in India. MTL has an extensive market network comprising of 50 branches, over 5000 dealers and over 300 distributors through whom the company sells its products in replacement market across the country.

### Long standing relationship with Continental AG

MTL has long-standing relationship of over 20 years with Continental AG, one of the largest tyre manufacturing companies across the globe. The company has an off-take agreement with Continental AG to meet its requirement in the bicycle division for supply of tyres (export), which are further sold in European and American markets. MTL has been in a long-term technical collaboration

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

with Continental AG for technical assistance for manufacturing motorcycle, scooter, moped (two-wheeler) and three-wheeler tyres. It has entered registered user agreement with Continental AG for the use of "Continental" trademark for sales of two- and three-wheeler auto tyres and tubes in the domestic market under joint branding with Continental. Technical collaboration and registered agreement with Continental AG have enhanced MTL's position in the Indian tyre industry. The company is also paying royalty to Continental AG for the technical assistance and for the use of Continental trademark for the sale of 2W/3W tyres and tubes (except for E-Rickshaw) in the domestic market. The company is under discussion with other players in the export market to mitigate its reliance on Continental AG.

**Moderation in operational performance and profitability margins**

The company experienced year-over-year (y-o-y) moderation in TOI by 19% and stood at 524.66 crore in FY24 (PY: ₹650.87 crore). This moderation was primarily due to reduced demand in the domestic cycle industry post COVID-19 and due to weakened demand in European markets influenced by adverse global factors such as the Russia-Ukraine war leading to 8% decline in overall sales volume within the company's cycle segment. Additionally, reduced demand from major customer Continental AG, owing to surplus inventory at their end, further impacted the operational performance adversely. Consequently, PBILDT margins also declined due to lower scale from 3.90% in FY23 to 3.25% in FY24.

In H1FY25 (refers to April 01 to September 30), the company's performance remained at the similar level as FY24 with TOI of ₹295.52 crore and PBILDT margin at 3.10%. However, the company is taking multiple measures to improve its performance and profitability as more focus is towards expanding in export and domestic replacement market which are more margin accretive. The company has diversified its business geographically to European and American markets and selling products under its own brands 'Zooka', 'Ortem' and 'Metro' through its Dubai office, until FY23. The company was catering foreign market through Continental AG under its brand only. Considering increasing demand of E- Rickshaw, the company has launched E-Rickshaw tyres under its brand "Velo" in June 2023 and sold ~156,000 tyres till November 2024. The company has also diversified into farm tyres to tap increasing demand in the agriculture sector and booked revenue of ₹1.80 crore till November 2024. In addition to this, the company has also hired PwC for management consultancy with an objective of improvement in profitability through achieving efficiency in manufacturing operations. With the scaling up of operations as envisaged in future leading to economies of scale and the focus on export market having better realisations, margins are expected to improve and shall remain a key monitorable.

**Diversified sales with majority sales in replacement market and reputed customer base**

Since MTL derives majority sales from replacement market, which accounts for 65% gross sales in FY24 (PY: 55%), the company has lower susceptibility to business downturns or decline in production by OEMs (Original equipment manufacturers). In the replacement market, the company is also selling tyres and tubes to its group company, Metro International (export arm of Metro Group), which exports to over 50 countries. MTL is also exporting its cycle tyres and tubes to Continental AG, which although declined in the last year as mentioned above from 20% of its total gross sales in FY23 to 9% in FY24. The company's OEM sales constituted ~26% of its total gross sales in FY24 (PY: 25%). MTL has a reputed client base and is supplying tyres and tubes to the leading cycles and 2W/ 3W OEMs including Bajaj Auto Limited, Hero Cycles Limited, T.I. Cycles of India and has maintained relationship with them over the years. The company has opened an office in Dubai to cater gulf countries with ready material at point of sale.

**Comfortable financial risk profile**

The company's capital structure has remained comfortable over the years with the overall gearing remained less than unity from past five fiscals and stood at 0.06x as on March 31, 2024 (PY: 0.10x), attributable to stable cash flow generation and lower dependence on bank borrowing. "Nil" term debt obligations and negligible utilisation of FBWC limits has resulted in lower interest outgo. Resultantly, interest coverage ratio continued to remain comfortable, at 10.26x in FY24 (PY: 9.63x) and total debt to gross cash accruals (TD/GCA) stood at 0.75x (PY: 0.98x). The company has been able to rely less on working capital borrowings as it receives prompt payment from its renowned customers and extends cash discounts for the same. Going forward, with no debt envisaged and accretion of profits, financial risk profile is expected to remain comfortable.

## Key weaknesses

**Elongated working capital cycle**

The company's operating cycle elongated to 112 days as on March 31, 2024 (PY: 96 days), driven by higher inventory level of 97 days (PY: 91 days), notably in finished goods inventory reflecting subdued demand in the cycle industry. MTL extends credit period of 40-60 days to majority customers and maintains an inventory of 2-3 months to ensure timely delivery. Working capital cycle is partially supported by creditors at 40-60 days. With the scaling up of operations, prudent working capital management remains a key monitorable.

**Margins susceptible to raw material price volatility and currency risk**

The major raw materials required for manufacturing tubes and tyres is rubber, which constitutes ~43% of its total raw material cost. MTL uses natural rubber, synthetic rubber, reclaim rubber and crude derivates such as carbon black as the raw material. Hence, the company is exposed to movement in rubber and crude prices and adverse movement in raw material can impact the the company's profitability. However, the company has a cost-plus mechanism, where movement in raw material price beyond a threshold limit is passed on to the customers, despite with a time lag of 1-3 months. MTL depends on Vietnam and Kerala for its rubber requirement. The company does not hedge its forex exposure and hence is exposed to the currency fluctuation risk. However, the company exports tyres and tubes to Continental AG, which acts as a natural hedge to some extent. The company has booked net gain of ₹0.50 crore in FY24 (PY: ₹1.48 crore) on foreign currency transactions.

**Exposure to intense competition**
The organised market for bicycle tyres is having presence of players such as Ralson India Limited, Metro Tyres Limited, Hindustan Tyres Private Limited, Poddar Tyre Limited, and the Hartex group of companies. In auto tyres and tubes, company faces competition from JK Tyres, Apollo tyres and MRF. Thus, MTL faces tough competition from these players. Low entry barrier has resulted in many small entities entering the unorganised sector. Consequently, pricing pressure on individual players is significant. The intense competition leads to competitive pricing and lower margins.

**Liquidity: Adequate**
The company's liquidity profile is marked by negligible utilisation of working capital limits of ₹100.00 crore for the last 12 months ended October 2024. The company has no long-term debt obligations as on date and is not planning debt funded capex in near future. Maintenance capex of ~₹10.00 crore has been projected to be funded entirely through internal accruals. The company's unencumbered cash and bank balance stood at ₹25.48 crore as on March 31, 2024, and the current ratio remained strong at 2.20x (PY: 1.78x) as on March 31, 2024.

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

## About the company and industry

## Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Consumer discretionary | Automobile and auto components | Auto components | Tyres and rubber products |

MTL was incorporated in 1968 by Man Singh, founder and chairman of Metro Group, as a partnership firm. It was converted to a private limited company in 1974 and later to public limited company in 1987 and is the flagship company of Metro Group. MTL is engaged in manufacturing, sales and distribution of bicycles tyres, tubes, chains and 2/3 wheelers tyres, tubes and further expanded in four-wheeler tyres (in April 2019, tyre compatible to Tata Ace vehicle and similar vehicles), E-Rickshaw tyres (June 2023 under its brand "Velo") and farm tractor tyres as well. MTL has five manufacturing facilities - four in Ludhiana and one in Gurgaon – as on September 30, 2024, with total installed capacity of 30.0 million pieces of cycle tyres, 40.0 million pieces of cycle tubes, 4.0 million pieces of cycle chains, 4.5 million pieces of 2/3 wheeler tyres and 4 million pieces of 2/3 wheeler tubes. The group's other constituents –were incorporated in 1986 – are Metro International, a government-recognised trading house for catering export of tyres and Metro Ortem Limited, for group's diversification in manufacturing lifestyle and consumer durable products.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | H1FY25 (UA) |
|---|---|---|---|
| Total operating income | 650.87 | 524.66 | 295.52 |
| PBILDT | 25.37 | 17.04 | 9.16 |
| PAT | 10.44 | 6.56 | 2.96 |
| Overall gearing (times) | 0.10 | 0.06 | NA |
| Interest coverage (times) | 9.63 | 10.26 | NA |

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Working Capital Limits | | - | - | - | 100.00 | CARE A; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 60.00 | CARE A1 |

## Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Working Capital Limits | LT | 100.00 | CARE A; Stable | - | 1)CARE A; Stable (02-Feb-24) | 1)CARE A; Stable (26-Dec-22) | 1)CARE A; Stable (04-Mar-22) |
| 2 | Non-fund-based - ST-BG/LC | ST | 60.00 | CARE A1 | - | 1)CARE A1 (02-Feb-24) | 1)CARE A1 (26-Dec-22) | 1)CARE A1 (04-Mar-22) |

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

## Annexure-4: Complexity level of instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Working Capital Limits | Simple |
| 2 | Non-fund-based - ST-BG/LC | Simple |

## Annexure-5: Lender details

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|---|
| To view lender-wise details of bank facilities please click here |

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

## Contact us

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**About us:**

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