

ELGI Rubber Company Limited

March 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	203.86 (Enhanced from 202.56)	CARE BB+; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	18.25 (Enhanced from 15.25)	CARE A4+	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Fixed Deposit	12.00	CARE BB+; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of ELGI Rubber Company Limited (ERCL) continue to be constrained by the moderate capital structure and debt coverage indicators, stretched liquidity with net losses incurred in the past years and exposure of profit margins to volatility in raw material prices. The ratings however derive strength from vast experience of the promoters in the tyre reclaim and retreading business, established relationship with reputed customer profile. The ratings also consider sharp turnaround of performance with improved profitability during 9mFY23 (refers to April 1 to December 31) supported by growth in demand and reduced raw material costs.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to report improved PBILDT margin of above 13% on sustained basis.
- Timely realization of asset monetisation plans and reducing the debt levels as envisaged.

Negative factors

- Any large debt funded capex leading to moderation in capital structure with overall gearing above 2x.
- Any continued losses in the subsidiaries leading to stretched liquidity position.

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: Positive

The outlook is positive as the company is expected to improve profitability in the near term backed by healthy orders for the reclaim and re-treaded rubber and reduced raw material prices. Furthermore the company has taken measures to monetise the assets to reduce the debt over next two years which is expected to improve the capital structure and debt coverage metrics. The outlook may be revised to 'Stable' if there is a decline in profitability from the current levels and delayed realization of asset sale proceeds from the envisaged timelines.

Key weaknesses

Moderate capital structure and debt coverage indicators albeit improved during 9mFY23:

ERCL has total debt of Rs.247.39 crores as on March 31,2022 which comprises 56% of working capital and 40% of term loans and around 51.5% debt lies in subsidiaries. Due to losses incurred in past years the networth has been deteriorated to Rs.157.19 crores for the period ended March 31, 2022 (PY : Rs.169.53 crores). However with healthy accruals in 9mFY23, the overall gearing

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

improved to 1.33 as on December 31, 2022. The total debt/GCA improved, however stood moderate at 5.08x as on December 31, 2022 (155.49x as on March 31, 2022).

The company has sold freehold land during 9mFY23 for Rs.11 crores and has plans to sell assets in the next couple of years which are expected to reduce the debt levels. Timely monetization of these assets would be a key monitorable.

Moderate financial performance with losses in FY22 however improved in 9mFY23:

ERCL revenue is contributed 50.17% by its Indian entity and remaining by its subsidiaries in FY22. Weak financial performance of the foreign subsidiaries due to demand slowdown following 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 9mFY23 with improved capacity utilization, following recovery in demand for the products along with reduced raw material prices. The company reported PBILDT margin of 12.71% in 9mFY23 as against 4.53% 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. The 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 increased over the past two years post release of lockdown restrictions and had declined in the past two quarters ended Q3FY23. High volatility in natural rubber prices is 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 had been volatile in the range of 3.93% to 6.55% over the past three years ended FY22.

Key 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 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 top 5 customers forming 15.2% at consolidated level in FY22 and 17.5% in 9mFY23.

Liquidity: Stretched

Liquidity is stretched marked by lower accruals of Rs.1.59 crore in FY22 and Rs.35.25 crore in 9mFY23 against repayment obligations of Rs.46 crores for FY23. However, the company had managed the liquidity shortfall through funds from promoters and sale of non-core assets in the past. ERCL had free cash balance of Rs.4.36 crore as on March 31, 2022 and Rs.3.39 crores as on December 31, 2022. The company offers collection period of around 2 months to its customers while maintains inventory of 4-5 months. The company at standalone level has been sanctioned working capital limits of Rs.30 crore and the average utilization of the same stood around 81% for the past 12 months ended January 2023.

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](#)

[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, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	357.54	410.48	325.14
PBILDT	35.1	18.07	41.28
PAT	1.07	-16.35	22.84
Overall gearing (times)	1.44	1.57	1.33
Interest coverage (times)	1.46	1.17	4.34

A: Audited, UA; Unaudited; 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 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	12.00	CARE BB+; Positive
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE BB+; Positive
Fund-based - LT-Term Loan		-	-	May 2027	57.32	CARE BB+; Positive
Fund-based - LT-Working Capital Demand loan		-	-	-	3.00	CARE BB+; Positive
Fund-based - ST-Bank Overdraft		-	-	-	0.25	CARE A4+
Fund-based - ST-EPC/PSC		-	-	-	0.00	Withdrawn
Fund-based - ST-Working Capital Limits		-	-	-	0.00	Withdrawn

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
Non-fund-based - LT- Standby Letter of Credit		08-Oct-2021	-	-	113.54	CARE BB+; Positive
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	18.00	CARE A4+

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	57.32	CARE BB+; Positive	1)CARE BB+; Stable (01-Sep-22)	1)CARE BB+; Stable (02-Nov-21)	-	-
2	Fund-based - LT-Cash Credit	LT	30.00	CARE BB+; Positive	1)CARE BB+; Stable (01-Sep-22)	1)CARE BB+; Stable (02-Nov-21)	-	-
3	Fund-based - LT-Working Capital Demand loan	LT	3.00	CARE BB+; Positive	1)CARE BB+; Stable (01-Sep-22)	1)CARE BB+; Stable (02-Nov-21)	-	-
4	Fund-based - ST-Bank Overdraft	ST	0.25	CARE A4+	1)CARE A4+ (01-Sep-22)	1)CARE A4+ (02-Nov-21)	-	-
5	Non-fund-based - ST-Bank Guarantee	ST	-	-	1)CARE A4+ (01-Sep-22)	1)CARE A4+ (02-Nov-21)	-	-
6	Non-fund-based - ST-Letter of credit	ST	18.00	CARE A4+	1)CARE A4+ (01-Sep-22)	1)CARE A4+ (02-Nov-21)	-	-
7	Non-fund-based - LT-Standby Letter of Credit	LT	113.54	CARE BB+; Positive	1)CARE BB+; Stable (01-Sep-22)	1)CARE BB+; Stable (02-Nov-21)	-	-
8	Fund-based - ST-EPC/PSC	ST	-	-	1)CARE A4+ (01-Sep-22)	1)CARE A4+ (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 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
9	Fixed Deposit	LT	12.00	CARE BB+; Positive	1)CARE BB+; Stable (01-Sep-22) 2)CARE BB+; Stable (22-Jun-22)	1)CARE BB+ (FD); Stable (02-Nov-21)	-	-
10	Fund-based - ST-Working Capital Limits	ST	-	-	1)CARE A4+ (01-Sep-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the 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	Fund-based - ST-EPC/PSC	Simple
7	Fund-based - ST-Working Capital Limits	Simple
8	Non-fund-based - LT-Standby Letter of Credit	Simple
9	Non-fund-based - ST-Bank Guarantee	Simple
10	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 Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Name: Sandeep P Director CARE Ratings Limited Phone: 044-28497812 E-mail: Sandeep.prem@careedge.in
Relationship Contact Name: Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-98407 54521 E-mail: pradeep.kumar@careedge.in	Name: Naveen Kumar S Assistant Director CARE Ratings Limited Phone: 0422- 4332399 E-mail: naveen.kumar@careedge.in
	Name: Thilak U Analyst CARE Ratings Limited E-mail: thilak.u@careedge.in

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