

Studds Accessories Limited

March 29, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	128.50	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	22.00	CARE A1+ (A One Plus)	Assigned
Total Facilities	150.50 (Rs. One hundred fifty crore and fifty lakh only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Studds Accessories Limited (SAL) derive strength from the experience of the company's promoters and management, its 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, healthy operating profitability and cash accruals and a healthy financial risk profile marked by comfortable capital structure and debt coverage indicators and strong liquidity position backed by a well-managed operating cycle.

The above rating strengths are, however, tempered by SAL's exposure to raw material price volatility and **competition from organized and unorganized players**.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

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

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin below 15% on a sustained basis thereby resulting in moderation in debt coverage indicators.
- Deterioration in overall gearing beyond 0.50 times on a gross debt basis.

Detailed description of the key rating drivers

Key Rating Strengths

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

Long track record and dominant market position: SAL has track record of nearly three decades in the helmet industry. The company has the largest capacity for manufacturing of helmet in domestic organized segment with capacity of over 1.3 crore helmets per annum as on December 31, 2021. SAL sells helmets under Studds and SMK (premium brand). Under accessories, SAL sells jackets, gloves, luggage box, face shield, visor etc.

Getting product approval from OEMs is a time consuming and costly process. Moreover, helmet being 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 domestic OEMs and retailers across India. SAL mainly sells through dealers, OEMs, Government canteens and through its own website. The revenue concentration from top 10 customers remained low at 31% during FY21 (FY20: 36%). In past two years, SAL has focused on increasing its share in export market. During FY22, SAL is expected to achieve export sales of Rs.100 crore almost doubled over exports in FY21.

Growing scale and healthy profitability margins albeit moderation in 9MFY22: Despite subdued market conditions of two-wheeler industry and impact of Covid-19, total operating income (TOI) of the company grew at CAGR of over 16% during FY17- FY21. Over the years, its PBILDT margin improved and stood healthy at around 23% in FY20 and FY21. With healthy PBILDT margin and relatively lower interest cost and depreciation charge, SAL reported PAT margin of about 15% in FY21. The company reported Gross Cash Accruals of Rs.91 crore during FY21 which was partially utilized to fund its net working capital, scheduled repayment of its long-term debt, capital expenditure and rest was parked in fixed deposits. Further, return indicators marked by ROCE remained strong at 35% in FY21.

During 9MFY22, SAL reported total operating income of Rs.337 crore as performance was impacted by restrictions due to second wave of Covid-19 pandemic in Q1FY22 and disruption in operations on account of SAP implementation. SAL's PBILDT margin declined to 9% in 9MFY22 due to lower sales and inability to completely pass on increase in raw material prices to customers.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE publications.

During November 2021, the company has increased its selling price by 6% on an average to offset increase in raw material prices to large extent. It is expected that the company will regain its operating margins in excess of 20% from FY23 onwards which shall remain a key monitorable.

Comfortable capital structure and strong debt coverage indicators: Capital structure of the company remains comfortable marked by overall gearing ratio of 0.16x as on March 31, 2021 backed by net worth base of Rs.289 crore as on March 31, 2021 and lower reliance on borrowings. SAL had liquid investments and cash and bank balance aggregating Rs.74 crore as on March 31, 2021 significantly exceeding total debt of the company resulting in a zero net debt position for the company. 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, debt coverage indicators remained strong during FY21 backed by low debt level and healthy profitability resulting in Total Debt/PBILDT of 0.40x and interest coverage of over 30x during FY21.

Well managed operating cycle: SAL extends limited credit period of about 7 days credit to dealers and 30-60 days to OEMS. Online sales and institutional orders are on advance basis while payment from Government canteens is generally received in 60-90 days. Export sales are mainly on advance 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 15-20 days. Moreover, the company efficiently manage 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 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.

Key Rating 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, SAL being market leader has bargaining power to pass on increase in raw material prices to its customers to some extent resulting into relatively steady gross margin of around 55-60% during last 3 years ended FY21. SAL has taken a price hike in November 2021 to pass on rising raw material prices in current fiscal.

Exposure to competitive pressure albeit increase in share of organized players: Domestic helmet industry consists of very few large, organized players i.e. Studds, Steelbird and Vega together accounting for nearly 55% 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 cost of share of unorganized players which have been severely impacted by implementation of GST. Further, ban of non-ISI helmet from June 2021 is further expected to support the growth in share of organized players in coming years.

Industry growth prospects

Demand of helmet can be mainly associated with purchase of new two wheelers and replacement demand. Domestic helmet industry size is over Rs.2,000 crore of which share of replacement demand is high at 70-80%. Sales of two wheelers which witnessed decline of 18% in FY20 on y-o-y basis, further declined by 13% in FY21 mainly due to Covid-19 pandemic and subsequent lockdown, higher cost of vehicle and reduced disposable income. Sales of two wheelers and helmets further impacted by second wave of Covid-19 in Q1FY22. SAL is focusing to increase in export sales which partially mitigates risks of domestic slowdown. 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 1.43 times as on March 31, 2021, NIL utilization of fund-based working capital limits for the trailing 12 months ended December 2021, healthy cash flow from operations of Rs.96 crore during FY21 and liquid investments and cash and bank balance aggregating Rs.74 crore as on March 31, 2021 significantly exceeding total debt of the company resulting in a zero net debt position for the company. SAL has planned a capex of over Rs.70 crore for building warehouse at a cost of around Rs.70 crore to strengthen its marketing base which is being funded with term loan of around Rs.60 crore and the rest through accruals. Going forward, notwithstanding capex, SAL's liquidity is expected to remain strong backed by strong generation of cash flow from operations.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

Incorporated in 1983, SAL was promoted by Mr 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 1.3 crore helmets per annum as on December 31, 2021. The company's manufacturing facilities are located at Faridabad (Haryana).

(Rs. Crore)

Brief Financials	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	436.41	500.58	337.25
PBILDT	103.18	115.13	30.32
PAT	74.53	74.02	NA
Overall Gearing (times)	0.20	0.16	NA
PBIDLT Interest coverage (times)	101.35	31.86	14.79

A: Audited; UA: Un Audited; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history (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 for this company: Please refer Annexure-4

Annexure-1: Details of Instrument/ Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	October 2026	107.50	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 of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	107.50	CARE A+; Stable				
2	Fund-based - LT-Working Capital Limits	LT	21.00	CARE A+; Stable				
3	Non-fund-based - ST-Working Capital Limits	ST	22.00	CARE A1+				

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

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
I	
II	
B. Non financial covenants	NA
I	
II	

Annexure-4: Complexity level of various instruments rated for this Company

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: Bank Lender Details for this company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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