

Harita Seating Systems Limited

May 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	27.80	CARE A; (Single A); (Under Credit watch with Positive Implications)	Reaffirmed and continues to be on credit watch
Long/ Short-term Bank Facilities	5.00	CARE A / CARE A1 (Single A / A One) (Under Credit watch with Positive Implications)	Reaffirmed and continues to be on credit watch
Total	32.80 (Rupees Thirty Two crore and Eighty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of bank facilities of Harita Seating Systems Ltd (HSSL) continues to be on under 'credit watch with positive implications' in view of the impending amalgamation of HSSL with Minda Industries Limited (MIL) and the possible impact of the same on the credit profile of HSSL. The proposed amalgamation is subject to various statutory approvals and regulatory approvals. CARE will take a view on the ratings once more clarity emerges on the implications of the above development.

The ratings of the bank facilities of Harita Seating Systems Limited (HSSL) continue to factor in the strong parentage of the TVS group and its long established presence in the automotive business, strong track record of HSSL in the seating system space and its long association with major Original Equipment Manufacturers (OEMs). However, the rating strengths are partially offset by competitive nature of the business with presence of captive suppliers, raw material price volatility and the vulnerability of business to cyclicalities associated with the end use segments catered to by HSSL & consequent impact on profitability parameters.

The ratings also factors moderation in operational and financial performance of the company due to not so favorable industry scenario though company continues to maintain comfortable capital structure and debt coverage indicators. With all of the company's plant being shut due to lockdown imposed on account of Covid-19 and likely longer time expected to be taken to ramp up the production even after removal of lockdown, HSSL's ability to quickly turnaround the operations remains to be seen. HSSL has not opted for moratorium under RBI's Covid-19 regulatory package.

Rating Sensitivities

Positive rating sensitivities

- Significant improvement in scale of operations while maintaining profitability margins over 10% and TOL/TNW below 0.80x.

Negative rating sensitivities

- Sharp deterioration in credit profile of the promoter group company
- Deterioration in liquidity profile of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Proposed merger with Minda Industries Ltd

Harita Seating Systems Limited (HSSL) in its communication to the stock exchange vide its letter dated February 14, 2019 has announced the consideration and approval of their board of directors for amalgamation of Harita Seatings Systems Limited (HSSL) and four other companies mainly investment companies with Minda Industries Limited (MIL) with the appointment date of April 01, 2019. The case is pending with NCLT for the final approval. The proposed amalgamation is expected to enable both the companies (HSSL and MIL) to realize benefit of greater synergies between businesses and broaden the portfolio and ability to leverage financial, managerial, technical, and distribution of marketing resources of each other towards maximizing stakeholder value.

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

Established track record of operations and strong association with major OEMs

HSSL is among the larger players in the seating system business in India and has an established track record of more than three decades. HSSL caters to the requirements of CV segment (MHCV-Trucks and LCV), tractor segment, bus passenger seats segment and off-road vehicle segment and enjoys considerable market share in seating systems for CV, tractors and Bus Passenger seats. HSSL has a strong client base and established relationship with leading OEMs in Commercial Vehicles and Tractor segments with some of the major customers being Tata Motors, Ashok Leyland, Daimler India in the CV segment, John Deere, TAFE etc. in the tractor segment, Volvo, Tata Marcopolo and other private players (others- BPS) etc. in the Bus segment. Diverse product offering, established R&D support, strong brand image and ability to quickly scale up the operations in line with requirements of the OEMs, have helped the company in establishing a strong association with OEMs.

Above average financial risk profile though moderated in 9MFY20

HSSL's operating income grew by 9.8% to Rs.490.98 Cr in FY19 from Rs.447.29 crore in FY18. However, despite increase in sales, PBDIT margin declined from 10.71% in FY18 to 8.37% in FY19 due to change in product mix with higher sales of low margin CV seats and lower sales of high margin Bus passenger seats. Major portion of the revenue came from CV segment which accounted for 41.5% of the net sales during FY19 followed by bus passenger segment (17%), tractor segment (16.3%), Exports (15.3%) and remaining by off-road vehicle segment and spare parts segments.

However, in 9MFY20, the company's operating income declined to Rs.281 Cr at PBIDT margin of 3.54% as against Rs.406 Cr in 9MFY19 at PBIDT margin of 5.84% largely on account of general slowdown in auto industry which led to under recovery of fixed costs.

Nevertheless, the capital structure of HSSL continues to be comfortable with nil long term debt. The overall gearing has remained comfortable at 0.41x as on March 31, 2019 though deteriorated from 0.15x as on Mar'18 due to company availing bill discounting limits during FY19. Nevertheless, TOL/TNW remained at similar level of 1.07x as on Mar'19 as against 1.09x as on Mar'18.

Key Rating Weaknesses**Competitive business with captive suppliers and established players**

The seating system business is highly competitive with almost all major players having captive units for supply of seating systems. Apart from this, globally renowned seating system manufacturers setting up their plants in India given the growth potential of domestic auto industry also increases competition. Given, HSSL's strong business tie-ups with major OEMs, the threat from competition is mitigated to an extent.

Unfavourable industry prospects with associated cyclicity and sluggishness in demand due to Covid 19 pandemic

The automotive industry is cyclical in nature as the prospects are influenced by the investments and spending by the Government and individuals. Significant slowdown in investments in industrial and mining activities owing to policy bottlenecks combined with sluggish growth in agriculture activities due to adverse climatic conditions resulted in slowdown in the auto industry. Along with these, Covid19 pandemic and the duration of lock down in the country may have an adverse effect on the economy which may subsequently affect the cyclical automotive industry.

In Commercial Vehicle, The MHCV segment (truck and bus segment) reported degrowth of 29.7% sales during FY20 driven by weak demand associated with slowdown of economy as a whole. However, with the transition to Bharat Stage IV (BS-IV) emission norms completed and GST related regulations implemented, the CV industry is expected to grow steadily post the Covid19 pandemic with kick-start of the economy.

Liquidity: Adequate

Company had unutilized CC balance of 22.90 Cr as of April 17, 2020. Considering the cash accruals and nil term debt, company has adequate liquidity to suffice the fixed cost expenditure (including interest) for next 4-5 months. Company had cash and bank balance of 0.82 Cr as of Feb 29, 2020.

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](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Rating Methodology - Auto Ancillary Companies](#)

About the Company

Harita Seating Systems Ltd (HSSL) is a TVS Group company, engaged in the manufacture of seating systems for Commercial Vehicles, buses, tractors and Off-road vehicles for nearly 30 years. The promoters of TVS group (through various companies) hold 52.22% stake in HSSL as on March 31, 2020. By virtue of being part of TVS group, the company enjoys managerial and financial support from the group. HSSL is headed by Mr. Lakshmanan (Chairman) who has over six decades of experience in the automotive industry and is on the Board of TVS Motors (rated CARE AA+; Stable/ CARE A1+).

The company has a subsidiary named Harita Ferher Ltd (HFL), a 51:49 JV between HSSL and F.S. Fehrer Automotive GmbH (Germany) respectively. HFL is into manufacturing of foam pads for the passenger cars and assembles complete seats for two-wheelers and three-wheelers.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	447.29	490.98
PBILDT	47.89	41.08
PAT	30.80	22.02
Overall gearing (times)	0.15	0.41
Interest coverage (times)	33.57	15.37

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/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-Cash Credit	-	-	-	-	27.80	CARE A (Under Credit watch with Positive Implications)
Non-fund-based - LT/ST-Letter of credit	-	-	-	-	1.00	CARE A / CARE A1 (Under Credit watch with Positive Implications)
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	-	4.00	CARE A / CARE A1 (Under Credit watch with Positive Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	27.80	CARE A (Under Credit watch with Positive Implications)	-	-	1)CARE A (Under Credit watch with Positive Implications) (22-Feb-19) 2)CARE A; Stable (06-Sep-18)	1)CARE A-; Stable (04-Oct-17)
2.	Non-fund-based - LT/ST-Letter of credit	LT/ST	1.00	CARE A / CARE A1 (Under Credit watch with Positive Implications)	-	-	1)CARE A / CARE A1 (Under Credit watch with Positive Implications) (22-Feb-19) 2)CARE A; Stable / CARE A1 (06-Sep-18)	1)CARE A-; Stable / CARE A2+ (04-Oct-17)
3.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	4.00	CARE A / CARE A1 (Under Credit watch with Positive Implications)	-	-	1)CARE A / CARE A1 (Under Credit watch with Positive Implications) (22-Feb-19) 2)CARE A; Stable / CARE A1 (06-Sep-18)	1)CARE A-; Stable / CARE A2+ (04-Oct-17)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	To maintain a minimum net working capital of 25% of total current assets.
B. Non financial covenants	<p>The company shall give 60 days' prior notice to the lender for undertaking any activity such as</p> <ul style="list-style-type: none"> • Formulation of any scheme of amalgamation or reconstruction or merger or de-merger • Any new project or scheme of expansion or acquisition of fixed assets if such investments results in breach of financial covenants or diversion of working capital funds for long term assets.

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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