

Harita Seating Systems Limited

October 04, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	27.80	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long/ Short-term Bank Facilities	5.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)	Reaffirmed
Total Facilities	32.80 (Rupees Thirty Two crore and Eighty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to 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). The ratings also take into account HSSL's comfortable capital structure and debt coverage indicators with nil term debt outstanding as on March 31, 2017.

The ratings continue to be constrained by moderate operating margins, pricing pressure from OEMs, competitive nature of the business with presence of captive suppliers and exposure to the cyclical auto industry.

Ability of the company to improve its scale of operations, sustain/improve profitability, increase its market share in various segments and any major debt funded capital expenditure will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Part of the 'TVS' group a leading player in the auto ancillary business

HSSL is part of TVS group, one of the leading players in the auto ancillary and automobile industry in India. The promoters of TVS group (through various companies) hold 52.35% stake in HSSL as on June, 2017. 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 a Director on various TVS group companies. The day-to-day affairs of the company are managed by a team of experienced professionals headed by Mr A.G. Giridharan (President and CEO) who is an engineer from IIT-Kharagpur and PGDM from IIM-Kolkata, with more than two decades of experience. The group has in the past demonstrated its support by providing unsecured loans to HSSL.

Established track record of operations and strong association with major OEMs

HSSL is one among the larger players in the seating system business in India and has an established track record of more than two decades. HSSL has a strong client base and established relationship with leading OEMs in Commercial Vehicles and Tractor segments. 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.

Stable financial performance during FY17 supported by diversified revenue stream

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

The company caters to the requirements of CV segment, tractor segment, bus passenger seats segment, and off road vehicle segment. Major portion of the revenue of HSSL is from CV segment which accounted for 40% of the net sales during FY17 (refers to the period April 01 to March 31) followed by bus passenger segment (28%), tractor segment (16%) , and off road segment (4%). HSSL achieved growth of 12% in the total operating income during FY17.

The growth in total operating income during FY17 was mainly contributed by growth in sales from bus passenger segment (growth of 49%). This, apart growth in sales from CV segment (growth of 6%) has also contributed to the growth in total operating income despite flat growth in the tractor segment during the year. During FY17, the PBILDT margin of the company marginally improved to 9.89% from 9.21% in FY16. Sustained improvement in margins was due to better product mix with contribution from high margin segments like deluxe bus passenger segment and better pricing.

Comfortable capital structure and debt coverage indicators

With nil term debt during FY17, the interest cost remained low during the period. Improved margins and reduction in interest cost has resulted in improvement in profitability. HSSL achieved PBT of Rs.32 crore in FY17 as against Rs.27 crore in FY16 and GCA improved to Rs.32 crore in FY17 as against Rs.27 crore in FY16. With higher internal accruals and no major debt funded capex, the capital structure of the company has remained comfortable at 0.13x as on March 31, 2017.

The total debt of the company stood at Rs.11 crore as on March 31, 2017 (entirely being working capital limits). With increase in GCA, the total debt to GCA was low at 0.35 years during FY17. The company plans to incur capex in the next few years for the purpose of expanding the existing units to include additional facilities to cater to the requirements of its clients.

Industry prospects

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 in the past.

However, with lower cost of ownership of auto vehicles triggered by interest rate cuts in the recent past, push on manufacturing and infrastructure segment by the government have resulted in recovery of auto sector. Auto component industry stands to benefit from turnaround in OEM demand and stable replacement demand. With the expected improvement in demand prospects, ability of HSSL to secure new orders and customers to increase the scale of operations thereby improving profitability and any major debt funded capex would be important from a credit perspective.

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.

Moderate operating margins, pricing pressure from OEMs, competitive nature of the business with captive suppliers and exposure to the cyclical auto industry are the key challenges.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook 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 Limited (HSSL) is part of Chennai-based TVS Group and is engaged in the manufacture of seating systems for commercial vehicles, buses, tractors and off-road vehicles. HSSL's manufacturing facilities are located in Tamil Nadu, Maharashtra, Karnataka and Uttarakhand with an overall capacity to manufacture about 2 million seats per annum. HSSL was originally incorporated as Harita Grammer Ltd (HGL) in 1988 as a Joint Venture between Chennai based TVS Group and Grammer AG of Germany, a leading player in seating systems. The JV was terminated in 2002 though, Mr Hartin Grammer continues to hold 14% stake in HSSL and is on the board of HSSL as well. Consequent to the termination of JV, the company was renamed Harita Seating Systems Limited in 2002.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	317	355
PBILDT	29	35
PAT	25	25
Overall gearing (times)	0.07	0.13
Interest coverage (times)	19.77	79.68

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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-; Stable
Non-fund-based - LT/ST-Letter of credit	-	-	-	1.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	4.00	CARE A-; Stable / CARE A2+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (13-Oct-16)	1)CARE BBB+ (24-Sep-15)	1)CARE BBB (26-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	27.80	CARE A-; Stable	-	1)CARE A- (13-Oct-16)	1)CARE BBB+ (24-Sep-15)	1)CARE BBB (26-Dec-14)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (13-Oct-16)	1)CARE A3+ (24-Sep-15)	1)CARE A3 (26-Dec-14)
4.	Non-fund-based - LT/ST-Letter of credit	LT/ST	1.00	CARE A-; Stable / CARE A2+	-	1)CARE A- / CARE A2+ (13-Oct-16)	1)CARE BBB+ / CARE A3+ (24-Sep-15)	1)CARE BBB / CARE A3 (26-Dec-14)
5.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	4.00	CARE A-; Stable / CARE A2+	-	1)CARE A- / CARE A2+ (13-Oct-16)	1)CARE BBB+ / CARE A3+ (24-Sep-15)	1)CARE BBB / CARE A3 (26-Dec-14)

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