



BHARAT SEATS LIMITED

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2nd September, 2019

Corporate Relationship Department
BSE Limited
Floor 25, P.J.Towers
Dalal Street
Mumbai – 400 001

REF: CODE : 523229

Sub: Intimation of Reaffirmation of Credit Rating under Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ICRA Ltd., (credit rating agency) has on 30th August, 2019:

- Reaffirmed Long term Fund based cash credit as "[ICRA] A-". The outlook on the long term rating is negative.
- Reaffirmed Long term Fund based term loans as "[ICRA] A-". The outlook on the long term rating is negative.
- Reaffirmed Short-term non-fund based outstanding as "[ICRA] A2+".

The rating of ICRA is enclosed. Kindly take the same on your record.

Thanking You,

Yours Faithfully,
FOR BHARAT SEATS LIMITED

(RITU BAKSHI)
COMPANY SECRETARY



Encl: As Above

Bharat Seats Limited

August 30, 2019

Bharat Seats Limited: Rating reaffirmed for revised limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term: Fund-Based-Cash Credit	35.20	35.20	[ICRA]A-(Negative) reaffirmed
Long Term: Fund-Based-Term Loans	13.11	5.56	[ICRA]A-(Negative) reaffirmed
Short Term: Non-Fund Based	20.00	20.00	[ICRA]A2+; reaffirmed
Long Term/ Short Term: Unallocated Limits	0.19	0.00	-
Total	68.50	60.76	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in expectations of a weak operating performance of Bharat Seats Limited (BSL) over the near to medium term, with the company's revenues and profitability expected to contract owing to the weakness in demand for passenger vehicles (PVs). Besides the overbearing impact of weakness in automotive demand, the company's growth prospects in recent times have remained impacted by decline in effective share of business for supplies of car seats and carpet sets to Maruti Suzuki India Limited (MSIL) that is also evident in its performance reported during Q4 FY2019 and Q1 FY2020. After a YoY degrowth in operating income (OI) of 6.9% in FY2019, the company reported a revenue decline of 28.7% in Q1 FY2020. Even as the two-wheeler (2W) seat supplies to Suzuki Motorcycle India Private Limited (SMIPL) witnessed a healthy growth in revenue of 35.9% in FY2019, a decline in revenues from MSIL (accounting for 86.7% of revenues in FY2019) led to a revenue decline. ICRA notes that the company's promoters had entered into a Memorandum of Family Settlements (MOFS) on February 22, 2019, which is expected to allow streamlining of operations, given BSL's dependence on its group company (Sharda Motor Industries Limited or 'SMIL'), and allow the company to be cost competitive.

ICRA continues to factor in BSL's favourable ownership pattern with Suzuki Motor Company (SMC) and MSIL with a combined equity stake of 29.6% as well as its established relationship with its key customer, MSIL. The growing contribution of seat supplies to SMIPL in BSL's total revenues (4.7% in FY2019 from 2.5% in FY2017) and the latter's status as a sole supplier of 2W seats and frames to the former provides some diversification benefit. Despite the decline in volumes in FY2019 and Q1 FY2020, BSL's margins continue to be supported by the cost efficiency measures as well as backward integration and realignment of vendor base undertaken by the company since FY2018.

Even as the company maintains a conservative capital structure, its rating is constrained by the asset-liability mismatch, whereby the company's short-term funds are utilised for long-term purposes. As such, the financial risk profile of the company is characterised by higher dependence on creditors, resulting in higher Total Outside Liabilities/ Tangible Net Worth (1.6 times in FY2019) and lower current ratio (0.9 time in FY2019). Moreover, an expected capex of ~Rs. 38 crore to be incurred in FY2020 for setting up a new plant in Gujarat is likely to be funded through internal accruals and promoter loans of Rs. 7.8 crore, which would limit any improvement in the asset liability mismatch. Going forward, with the ongoing

weakness in the PV industry, BSL's revenues are expected to further decline in FY2020; and thereafter, the growth would be linked to MSIL's performance as well as the company's ability to win incremental business.

Outlook: Negative

ICRA expects BSL's revenues to further decline in FY2020 owing to the current moderation in the PV industry, which could adversely impact its operating profits and cash accruals. This could also lead to moderation in the profitability and coverage indicators if the company's capacity utilisation remains below par for a prolonged period. The outlook may be revised to Stable if there is a sustainable recovery in volumes that favourably impacts BSL's revenues, accruals and, thus, credit profile. The rating may be revised downwards if the rate of degrowth continues at the current level, which could substantially weaken BSL's financial and liquidity profile given the thin operating margin profile.

Key rating drivers

Credit strengths

Well established relationship and healthy share of business with MSIL - BSL has an established relationship with MSIL and is one of the two suppliers of seat sets for the latter. Despite some loss of business in recent times, BSL continues to be the sole supplier for seat sets for several models of MSIL. Moreover, the company also manufactures carpet sets for a few models.

Favourable ownership with MSIL and SMC having stake besides benefits of technical collaboration - The ownership pattern consists of MSIL and SMC having a combined stake of 29.6% in BSL, which has resulted in steady share of business over the years. Additionally, technical collaboration with Toyo Seats Co. Ltd. for seats and with INOAC Corporation for roof moulding and windshield components strengthens the company's position as a preferred seat system vendor for MSIL.

Status as sole supplier of 2W seats and frames to SMIPL provides some diversification benefits - BSL continues to be the sole supplier of 2W seats and frames for all the models of SMIPL. The company had witnessed a strong 30.1% volume growth and 36.0% revenue growth, albeit on small base, from the sale of 2W seats in FY2019 on the back of a healthy ramp up in volumes by the original equipment manufacturer (OEM). As the revenue share from this segment in BSL's overall revenue pie increases, it is likely to provide greater diversification benefits to the company.

Credit challenges

High client concentration risk with around 87% of revenues coming from MSIL - Although major supplies are made to MSIL, which drove ~87% of BSL's revenues in FY2019, the concentration risk is partially mitigated by the company's healthy share of business with MSIL and its favourable ownership pattern, wherein MSIL and SMC hold a healthy stake. Additionally, the leadership position of MSIL also helps in mitigating the risk to an extent.

Asset-liability mismatch - Over the years, short-term funds of the company have been used for long-term purposes, leading to an asset-liability mismatch characterised by a below average current ratio. With a capex of ~Rs. 38 crore in FY2020 towards the Gujarat plant likely to be funded through a promoter loan infusion of Rs. 7.8 crore and internal accruals, the mismatch is likely to limit an improvement in the asset liability mismatch in FY2020.

Ongoing weakness in the auto sector could constraint revenue growth - BSL's growth prospects are primarily linked to the volumes growth in the PV industry due to the high dependence on MSIL. With the PV industry as well as the overall auto sector witnessing a moderation in volumes, the company's growth prospects in the near-to-medium term remain limited.

Liquidity position

Despite the degrowth in revenues, BSL's fund flow from operations in FY2019 was Rs. 38.9 crore. However, free cash flows were lower at Rs. 6.2 crore due to the capex undertaken by the company. Despite this, BSL continues to enjoy a healthy liquidity profile supported by low debt repayments (Rs. 1.0-2.5 crore per annum over the next three years), surplus cash balance (Rs. 9.8 crore as on March 31, 2019) and low fund-based utilisation with an average utilisation of 23.6% over the past 12 months.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Incorporated in 1986 as a limited company, BSL is a joint-venture (JV) between its Indian promoters (Relan Group), MSIL and SMC. Initially, the company was only engaged in manufacturing car seats for MSIL. Subsequently in FY2006, BSL diversified its operations to begin manufacturing moulded floor carpets for MSIL and 2W seats for SMIPL. The company has since then, also started manufacturing windshields. Currently, the company has six manufacturing facilities, four in Gurgaon (Haryana) and one each in Bhora Kalan (Haryana) and Manesar (Haryana). It is also in the process of setting up a facility in Surenderanagar (Gujarat), which is expected to become operational by April 2020.

Key financial indicators (audited)

	FY2018	FY2019	Q1 FY2020 (Limited)
Operating Income (Rs. crore)	970.3	903.6	170.3
PAT (Rs. crore)	28.2	21.4	3.8
OPBDIT/OI (%)	6.7%	5.6%	7.2%
RoCE (%)	39.2%	26.8%	-
Total Debt/TNW (times)	0.3	0.3	-
Total Debt/OPBDIT (times)	0.4	0.6	-
Interest coverage (times)	20.3	16.6	16.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating		Date & Rating in FY2019	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 October 2016	
				August 2019	August 2019				
1 Fund Based- Cash Credit	Long Term	35.20	NA	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	
2 Fund Based- Term Loans	Long Term	5.56	5.19	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	
3 Non-Fund Based	Short Term	20.00	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	
4 Unallocated Limits	Short/ Long Term	0.00	NA	-	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB (Stable)/ [ICRA]A2	

*Outstanding as on June 30, 2019

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	35.20	[ICRA]A- (Negative)
NA	Term Loan	23-Oct-16	NA	30-Sep-21	5.56	[ICRA]A- (Negative)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	20.00	[ICRA]A2+

Source: BSL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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