



Subros Limited

Instrument	Amount	Rating Action
	In Rs. Crore	As on Jun'14
Commercial Paper/Short Term Debt	60.0	Upgraded to [ICRA]A1+
Term loans	137.0	[ICRA]A+(stable) reaffirmed
Cash Credit	65.0	[ICRA]A+(stable) reaffirmed
Non Fund Based Limits	10.0	[ICRA]A+(stable) reaffirmed
Fund Based and Non Fund based Limits	335.0	Upgraded to [ICRA]A1+

ICRA has reaffirmed the rating for Rs 212.0 crore^{*}, long-term facilities of Subros Limited (Subros) at [ICRA]A+(pronounced ICRA A plus) with 'stable' outlook[†]. ICRA has upgraded the ratings for Rs 335.0 crore short-term bank facilities and Rs 60.0 crore commercial paper (CP)/short-term-debt (STD) programme of the company from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A1+ (pronounced ICRA A one plus).

The upgrade in Subros' short-term rating reflects the improvement in its liquidity position owing to efforts taken to rationalise inventory position, as well as financial flexibility in the form of undrawn bank limits. The debt profile has also improved with increase in longer tenure debt in the company's funding mix. Further, notwithstanding pressure on operating income in 2013-14 due to weaker off-take from OEM customers, the company's profit indicators have expanded on back of savings on raw material as well as other costs. Although debt levels during Mar-14 end were relatively high, ICRA believes the same to be temporary in nature as they relate to investments in tools and dies.

The ratings continue to derive support from Subros' leading market share in the automotive AC market; strong business positioning with leading OEMs and presence in new product development; initiatives of product and customer diversification; technical support from Denso Corporation (Denso), as well as equity participation from Suzuki Motor Corporation (SMC). Subros' rating is however constrained by the ongoing weakness in domestic automotive market; and pressure on capital structure in view of debt funded capacity enhancement, component localisation and new product development. Notwithstanding sizeable debt repayments in the medium to long term, ICRA expects growing internal accruals to be adequate to meet the debt servicing obligations. Notwithstanding efforts toward localisation, the company's import content still remains high thereby exposing Subros' profitability indicators to foreign currency fluctuations. The risk is, however, mitigated by forex pass through arrangement with principal/key customers and shifting sourcing to low cost countries with alternative currencies. The ratings also consider Subros' in-house design capabilities, competitive cost structure in light of backward integrated nature of operations as well as being capacity ready for the next phase of industry growth.

^{*} 100 lakh = 1 crore = 10 million

[†] For complete rating definition please refer to the ICRA website www.icra.in or any of the ICRA Rating Publications



Company Profile

Subros was promoted in 1985 by Mr. Ramesh Suri and his younger brother Late Mr. Lalit Suri to manufacture automotive air conditioning systems. The company began its operations in 1986 after signing a technological agreement with Denso, which also acquired a 13% ownership interest in Subros. SMC, Japan holds a 13% share in Subros while 40% is held by the Suri family and the public (34%). In return for its assistance to Subros, Denso gets annual royalty on Subros' sales and a lump sum as fee for development of any new product. Additionally Subros has a joint development agreement with Denso (renewed last in April 2006), whereby the company would also receive assistance for development of AC systems for Indian OEMs (other than MSIL). The company has long standing relationship with Denso and hence enjoys good technological capabilities in the auto air-conditioning space, which has also helped the company to maintain its competitive edge over its peers.

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