April 06, 2023

Classic Stripes Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Term Loan	119.00	115.00	[ICRA]A (Stable); reaffirmed
Long-term/ Short-term – Fund-based/ Non-fund Based – Working Capital Facilities	0.00	22.00	[ICRA]A (Stable) / [ICRA]A2+; reaffirmed
Long-term/ Short-term – Unallocated Limits	0.00	44.00	[ICRA]A (Stable) / [ICRA]A2+; reaffirmed
Long-term – Fund-based/ Cash Credit	57.00	0.00	-
Short-term – Non-fund Based Facilities	5.00	0.00	-
Total	**181.00**	**181.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the established track record of Classic Stripes Private Limited (CSPL or the company) in the automotive decal manufacturing segment with an operational record of over three decades. CSPL has a dominant share in the domestic automotive decal market, particularly in the two-wheelers (2W) segment, catering to several leading 2W original equipment manufacturers (OEM). CSPL's exclusive supplier status for Hero MotoCorp Ltd (HMCL) along with a healthy wallet share with other leading 2W OEMs such as Bajaj Auto Ltd. (BAL), TVS Motors, India Yamaha Motor Private Limited (Yamaha), etc, provides sufficient revenue visibility to the company. Moreover, with its increasing presence in overseas markets, CSPL shows moderate geographic diversification as well. Furthermore, CSPL's plans to expand in the printed electronics space are expected to further support business prospects through revenue growth and diversification. The ratings also factor in the robust profitability metrics demonstrated by CSPL over the years, which is expected to be sustained over the medium to long-term, given its dominant market position in the domestic decal manufacturing segment.

The ratings, however, remain constrained by CSPL's concentration on a few clients and on the domestic 2W automotive industry, including the cyclicality associated with the same. While its plans to diversify into the printed electronics space are expected to mitigate this risk over the medium term, ICRA would monitor developments on this front such as the investment requirement, funding mix adopted for the same, along with revenue visibility from such investments, as these would have a material impact on its credit metrics.

The ratings also factor in the investments made by CSPL in its Group companies, which are operating in unrelated lines of businesses, and in other non-Group ventures. While CSPL is currently in the process of demerging its investments in real estate to a separate entity, as it is a non-core segment of its business, and plans to restrict further investments in Group companies while recovering the loans outstanding from them, ICRA would continue to monitor developments concerning any further financial support or investments from CSPL in Group companies / outside ventures.

The Stable outlook on the long-term rating reflects ICRA's expectations that CSPL will continue to benefit from the vast experience of its promoters along with proven expertise in the automotive decal manufacturing segment. Incremental revenue generation from the printed electronics segment, if any, would support its business prospects over the medium term.

Key rating drivers and their description

Credit strengths

Established track record and proven expertise in automotive decal manufacturing – With its operational track record spanning over three decades, CSPL demonstrates a proven expertise in automotive decal manufacturing. Its established brand presence has ensured a reputed clientele and helped in acquiring new customers, thus, leading to sufficient revenue visibility and supporting its growth potential.

Dominant market share in domestic automotive decal market; moderate geographic diversification with presence in overseas markets – CSPL is a leading manufacturer of automotive decals in the domestic market, with a focus on the 2W space. It faces limited competition in the domestic market, reflected in healthy margins maintained over the past several years. The revenues are also geographically diversified, with 18% of revenues derived from overseas markets in 9M FY2023, which continue to be on an uptrend.

Comfortable profitability metrics – Aided by its technical expertise developed over the years and limited competitive intensity in the domestic market, CSPL has demonstrated robust profitability metrics over the years, as reflected in operating margins upward of 30% over the past several years. Such comfortable profitability coupled with revenue expansion are likely to continue to support its earnings and accruals going forward as well.

Plans to expand in printed electronics segment to support business prospects – CSPL plans to increase its presence in the printed electronics segment, to cater to automotive, medical equipment and white goods products, over the medium term. Increasing presence in printed electronics is expected to provide the company with revenue growth and diversification benefits, and a supportive margin profile, going forward.

Credit challenges

Exposure to cyclical 2W automotive segment; any segment-specific downturns could impact business performance – With over 70% of its revenues derived from 2W OEMs, CSPL is exposed to the cyclicality and downturns specific to the domestic 2W automotive industry. However, the company's efforts to diversify into the printed electronics space, as well as increase presence in overseas markets, are expected to mitigate this risk over the medium term.

Moderate customer concentration risk – With its top customer driving 49% of its overall revenues in 9M FY2023, CSPL remains exposed to customer concentration risk. However, the company has recently added a few new customers across various segments, which would help mitigate this risk over the medium term. The expected build-up of clientele in the printed electronics business could further reduce the customer-concentration risks in the medium to long-term.

Sizeable investments in group companies and other ventures – CSPL has extended sizeable financial support to its Group companies and subsidiaries engaged in unrelated business sectors, with an overall funding of ~Rs. 225 crore as on December 31, 2022. However, the company is taking steps to reduce its exposure to such unrelated businesses and is currently in the process of demerging its investments in the real estate segment into a separate entity, to enable it to focus on its core business. Nevertheless, ICRA notes that the company has made few other debt-funded investments in non-Group entities in the current fiscal, the commensurate returns from which remain a key monitorable, going forward.

Liquidity position: Adequate

The company's liquidity profile is **adequate**, supported healthy cash flow generation of Rs. 60-80 crore per annum, which should enable the company to comfortably meet its debt repayment obligations (currently ~Rs. 40 crore per annum) and also fund the routine capital expenditure requirements (Rs. 20-25 crore annually) over the near to medium term. The liquidity position is further supported by unencumbered cash and liquid investments (~Rs. 8 crore as on December 31, 2022) and unutilised bank lines of ~Rs. 9.0 crore as on December 31, 2022. However, large investment requirements, if any, for expanding in the printed electronics space, are expected to be met from a mix of incremental external borrowings and internal accruals.

Rating sensitivities

Positive factors – CSPL's ratings may be upgraded if there is a significant and sustained improvement in its earnings and debt coverage metrics.

Negative factors – A rating downgrade could be triggered by muted demand from key end-user industries exerting pressure on the company's profitability and coverage indicators. A deterioration in coverage indicators, i.e., net debt/OPBIDTA above 1.8 times on a sustained basis might also lead to a downward rating. Any impact on the capital structure due to a distressed Group entity financially related with CSPL, or in case of further large debt-funded investments that impact CSPL's credit profile on a sustained basis, may also warrant a downward rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of CSPL after adjusting its net-worth for investments made in Mist Knowledge Park Private Limited (Rs. 170.4 crore as on March 31, 2022).

About the company

CSPL, established in 1987, is one of the leading manufacturers of automotive decals in India. The company offers end-to-end solutions ranging from design and product development to printing, fabrication, installation and application. It has an installed manufacturing capacity of around 350 million units of decals per annum. It primarily caters to the decal requirement of two-wheelers, followed by four-wheelers, commercial vehicles, construction equipment, tractors, recreational vehicles, lawn mowers and power-sport vehicles, etc. Automotive decals, domed decals, metcals and printed electronic products are a few of the major products offered by CSPL. At present, the company operates three manufacturing plants in Pelhar (Maharashtra), Sanand (Gujarat), and Haridwar (Uttarakhand). It is the flagship company of the Astarc Group, which has multiple business interests in areas such as real estate, power, venture funding, etc.

Key financial indicators

CSPL	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	301.8	330.6
PAT (Rs. crore)	51.1	68.3
OPBDIT/OI (%)	34.6%	36.5%
PAT/OI (%)	16.9%	20.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.8
Total Debt/OPBDIT (times)	1.2	0.8
Interest Coverage (times)	6.4	11.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: CSPL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					April 6, 2023	-	February 21, 2022	-
1	Term Loan	Long-term	115.0	74.3	[ICRA]A(Stable)	-	[ICRA]A(Stable)	-
2	Fund-based / Non Fund-based Working Capital Facilities	Long-term / Short-term	22.0	16.6	[ICRA]A(Stable)/ [ICRA]A2+	-	-	-
3	Unallocated Limits	Long-term / Short-term	44.0	NA	[ICRA]A(Stable)/ [ICRA]A2+	-	-	-
4	Cash Credit	Long-term	-	-	-	-	[ICRA]A(Stable)	-
5	Non Fund-based Facilities	Short-term	-	-	-	-	[ICRA]A2+	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based / Term Loan	Simple
Long Term / Short Term – Fund Based / Non Fund Based – Working Capital Facilities	Simple
Long Term / Short Term – Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's 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	Term Loan – 1	Jul-2021	NA	Apr-2023	17.00	[ICRA]A (Stable)
NA	Term Loan – 2	May-2020	NA	Nov-2023	13.00	[ICRA]A (Stable)
NA	Term Loan – 3	Jul-2022	NA	Aug-2027	40.00	[ICRA]A (Stable)
NA	Term Loan – 4	May-2020	NA	Feb-2024	9.00	[ICRA]A (Stable)
NA	Term Loan – 5	Jun-2022	NA	Aug-2027	36.00	[ICRA]A (Stable)
NA	Working Capital Facilities	NA	NA	NA	22.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	44.00	[ICRA]A (Stable)/ [ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

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