August 30, 2024

Rockman Industries Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits	200.00	200.00	[ICRA]AA(Positive); reaffirmed and outlook revised to Positive from Stable
Long-term – Fund based / Term loans	214.50	214.50	[ICRA]AA(Positive); reaffirmed and outlook revised to Positive from Stable
Short-Term – Fund based limits	190.0	190.0	[ICRA]A1+; reaffirmed
Short-term – Fund based/Non-fund based facilities	50.00	50.00	[ICRA]A1+; reaffirmed
Short-term – Non-fund based limits	90.00	90.00	[ICRA]A1+; reaffirmed
Total	**744.50**	**744.50**	
Commercial paper	**75.00**	**75.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating of Rockman Industries Limited (RIL) factors in the expectation that the credit profile of the entity would improve, going forward, led by continuation of diversification of its business risk profile, while maintaining strong return and credit metrics. The company's credit profile has improved in the recent past, aided by a ramp-up in capacity utilisation across its alloy wheel plants (especially the passenger vehicle alloy wheel plant) and improved demand from the two-wheeler (2W) industry (which constituted ~80% of the company's revenues in FY2024). RIL's operating profitability has improved materially over the past two fiscals, on the back of fall in commodity prices and improvement in utilisation levels. The margins are expected to remain healthy, going forward, given the steady demand in the automotive segments and ongoing cost efficiency measures. Aided by healthy profitability, the coverage indicators also improved significantly over the past two years and are expected to remain strong, going forward.

The ratings for RIL continue to factor in its established business position as a leading supplier of aluminium die-cast components (including alloy wheels) and strong business linkage with its key customer and group company, Hero MotoCorp Limited (HMCL; rated [ICRA]AAA(Stable)/A1+). RIL is the leading supplier of alloy wheels and other aluminium die-cast engine components, such as crank cases, cylinder heads and flange panels to HMCL. In FY2024, HMCL accounted for ~63% of RIL's adjusted revenues (adjusted for change in revenue construct with HMCL[1]), a steady reduction from the level of ~80% in FY2020, aided by the company's diversification initiatives and ramp-up in supplies to customers such as TVS Motor Company, Eicher Motors Limited (Royal Enfield division), Ather Energy Pvt. Ltd. etc. Even as the company remains exposed to client concentration risk, the risk is mitigated to an extent by HMCL's position as a leading 2W manufacturer and RIL's track record of a strong share of business with it. Further, the company's revenues from 4-wheeler (4W) segment have also improved in the past two years, which has helped the company reduce its dependence on a single segment.

RIL has ramped up supplies of 2W and passenger vehicles (PV) alloy wheels to several new customers over the last few years as a part of RIL's diversification strategies. It has also been awarded several new businesses for other casting-based

[1] In FY2023, RIL changed its business contract with HMCL to a 'job-work' model, resulting in reduced contribution from the OEM on an absolute basis (down to ~33% of revenues in FY2024 from ~70% till FY2022). RIL continues to procure raw materials for other OEMs, which gets included in the COGS and revenue numbers.

components from established OEMs and several prominent electric-2W manufacturers. Ramp-up in these supplies over the medium term are likely to help reduce customer-concentration risks and increase the share of revenues from the PV industry, reducing RIL's exposure to the 2W industry and help improve the credit profile.

Key rating drivers and their description

Credit strengths

Strong and established relationship with HMCL – RIL supplies aluminium die-casting components such as alloy wheels, cylinder heads, crank cases, and flange panels, among others, to HMCL, across its manufacturing facilities. The company had set up a facility in Gujarat to cater to HMCL's Gujarat plant, which helped strengthen its share of business with the OEM. Overall, it is estimated to have 45-50% share of business with HMCL, which is likely to sustain, going forward, benefitting from the industry-wide trend of alloy wheel localisation and strong relationship with HMCL.

Leading manufacturer of 2W alloy wheels and improving capacities for 4W in India – RIL is the largest domestic manufacturer of 2W alloy wheels in India, with an installed annual manufacturing capacity of ~15 million units. At present, it enjoys the majority share of business with HMCL, and is in the process of increasing its business with other 2W OEMs in India. The OEMs are increasingly opting for localising their alloy wheel procurement, given the increased competitiveness of domestic alloy wheel supplies against imports. Accordingly, companies such as RIL are likely to benefit from the improved order inflows. Further, the company has an installed capacity of about ~1.2 million units for 4W alloy wheel as of June 2024 and is expected to increase to about ~2.0 million units by the end of FY2025 to meet the increasing demand for big OEMs like Hyundai Motors India Limited, Kia Motors India Pvt. Ltd., Mahindra & Mahindra Limited etc. A ramp-up in supplies to these OEMs is further expected to diversify its business profile and reduce the concentration on HMCL.

Comfortable capital structure and healthy debt coverage metrics; financial flexibility supported by Group linkages – The company's financial risk profile is well supported by its large scale of operations and healthy cash accruals. Aided by improvement in credit metrics in the past two years with prepayment of debt and increase in profitability and growing 2W industry performance, the credit metrics improved in FY2024 (total debt/OPBITDA at 0.7 times over 1.4 times in FY2023 and an interest cover of 12.0 times in FY2024 over 7.8 times in FY2023). Even as the company has capex plans towards expanding its PV alloy wheel capacity in FY2025, the credit metrics are expected to remain healthy over the medium term, aided by an improvement in earnings and scheduled repayment of term loans. Additionally, with strong inter-group linkages as a part of the Hero Group, the company maintains a healthy financial flexibility in accessing financial institutions and the debt market for any funding requirement.

Credit challenges

Customer and segment concentration risks; diversification initiatives to mitigate the same – HMCL drove approximately ~63% of RIL's revenues in FY2024 (adjusted for the change in revenue construct). Nevertheless, the customer concentration has been reducing over the years (from ~80% in FY2020) aided by the company's diversification initiatives. In addition, the customer concentration risk is mitigated to an extent by HMCL's strong market position in the domestic 2W market and the company's strategic importance as a key vendor of aluminium die-cast components to the OEM. Aided by a ramp-up in supplies for various new businesses, the company's customer and segment concentration risks are expected to further reduce over the medium term.

Ongoing debt-funded greenfield expansions to keep return indicators under check – RIL's profitability and earnings improved substantially over the past two years, owing to a change in the revenue construct and its foray into 4W alloy wheel production, leading to an improvement in capacity utilisation of the plants. The company's profit margins rose, aided by a recovery in the prospects of the two-wheeler industry and easing in commodity prices. Going forward, the company has capex plans for enhancing its capacity across product lines to cater to various OEMs. Notwithstanding the capex plans, confirmed orders in hand, trend towards import substitution for alloy wheels, as well as business wins from established 2W and 4W OEMs and electric two-wheeler (e-2W) manufacturers offer comfort regarding continuation of ramp-up of supplies from its various plants, and an improvement in earnings. The company's credit metrics and return indicators are likely to remain healthy over the medium term and report a gradual improvement.

Liquidity position: Adequate

RIL's liquidity position is **adequate**, supported by expectation of healthy cash flow from operations, cash and liquid investments of ~Rs. 29 crore as of March 31, 2024 and availability of unutilised working capital limits (buffer of ~Rs. 157 crore as of June 2024). The company is expected to generate Rs. 200-250 crore of retained cash flows to help meet the debt repayment obligations of ~Rs. 79 crore in FY2025. Further, the company has an estimated capex requirement of Rs. 280-300 crore in FY2025, which is expected to be met from internal accruals, available lines of credit and additional term loans. The company also continues to benefit from healthy financial flexibility for being a part of the larger Hero Group.

Rating sensitivities

Positive factors – A material diversification in the segment mix with reduced dependence on the 2W segment would augur well for a positive rating action over the medium term. Its RoCE and Total Debt/OPBDITA improving to 20% and below 1.0 times, respectively, on a sustained basis, will be considered favourably for a long-term rating upgrade.

Negative factors – ICRA could revise the outlook to Stable in case of a material deterioration in its share of business with HMCL or a slower-than-expected ramp-up of sales from its new plants, resulting in weakening of credit metrics. Specific credit metrics that could trigger a downward rating action include TD/OPBDITA remaining above 2.0 times on a sustained basis. Sizeable incremental investments in the non-automotive business, resulting in a deterioration in the credit metrics, could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of RIL, details of which are enlisted in Annexure-II.

About the company

Established in 1961, Rockman Industries Limited (RIL) is one of the leading auto component manufacturing entities of the Hero Group with presence in aluminium die-cast components. Rockman is the major supplier of key engine components and alloy wheels to Hero MotoCorp Limited (HMCL, [ICRA]AAA(Stable)/[ICRA]A1+), a key customer[2] of the company. RIL caters to 45-50% of HMCL's alloy wheel requirement (as per management discussion) and is also one of the leading suppliers of other aluminium die-cast components such as crank case, crank case covers and cylinder heads.

Over the past decade, the company has implemented a strategy to diversify its exposure and has made both organic and inorganic investments to secure businesses outside the 2W industry. Some of its key inorganic investments were Sargam Die Castings (in 2014) and Moldex Composites Private Limited (2018). Sargam Die Castings, involved in aluminium die-casting for customers such as Ford and Bosch, was renamed as Rockman Industries Chennai Private Limited post the acquisition. It was subsequently amalgamated with RIL with effect from April 1, 2018. The other acquired entity, Moldex, later rechristened as

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Rockman Advanced Composites Private Limited [rated [ICRA]BBB+(Stable)/[ICRA]A2], manufactures carbon composites for super luxury and racing vehicles.

RIL has invested in non-automotive businesses with focus on electronics and semi-conductor testing facilities. These investments were held by its 45% stake in the co-group company, Hero Electronix Private Limited (HEPL). The company is not listed at present, and its promoters (Hero Group) own a 100% stake. The company has also ventured in e-commerce space for selling spare parts in FY2024 under Spares Superhero Private Limited, a 100% stake of which is held by RIL.

RIL's manufacturing facilities in Ludhiana (Punjab), Bawal (Haryana), Haridwar (Uttarakhand) and Chennai (Tamil Nadu) produce a range of aluminium die-cast components using high-pressure, low-pressure and gravity die-casting technologies. Additionally, it has a dedicated auto-chain manufacturing plant at Mangli (Punjab). The company has also set up greenfield facilities in Tirupati (Andhra Pradesh) and Gujarat for manufacturing alloy wheels for PV and 2W OEMs over the past few years.

Key financial indicators (audited)

RIL Consolidated	FY2023	FY2024
Operating income	2,293.6	2,389.5
Adjusted operating income**	3,938.0	4,304.2
PAT	91.0	159.7
OPBDIT/OI	14.3%	18.0%
PAT/OI	4.0%	6.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.5
Total debt/OPBDIT (times)	1.4	0.7
Interest coverage (times)	7.8	12.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

***Refer footnote 1*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)			Chronology of rating history for the past 3 years					
		Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long-term	200.00	**Aug 30, 2024**	**[ICRA]AA (Positive)**	Aug 10, 2023	[ICRA]AA (Stable)	Oct 21, 2022	[ICRA]AA (Negative)	Feb 25, 2022	[ICRA]AA (Negative)
Term Loans	Long-term	214.50	**Aug 30, 2024**	**[ICRA]AA (Positive)**	Aug 10, 2023	[ICRA]AA (Stable)	Oct 21, 2022	[ICRA]AA (Negative)	Feb 25, 2022	[ICRA]AA (Negative)
Fund/ Non Fund-based Limits	Short-term	50.00	**Aug 30, 2024**	**[ICRA]A1+**	Aug 10, 2023	[ICRA]A1+	Oct 21, 2022	[ICRA]A1+	Feb 25, 2022	[ICRA]A1+
Fund Based Limits	Short-term	190.00	**Aug 30, 2024**	**[ICRA]A1+**	Aug 10, 2023	[ICRA]A1+	Oct 21, 2022	[ICRA]A1+	Feb 25, 2022	[ICRA]A1+
Non Fund Based Limits	Short-term	90.00	**Aug 30, 2024**	**[ICRA]A1+**	Aug 10, 2023	[ICRA]A1+	Oct 21, 2022	[ICRA]A1+	-	-
Unallocated	Long-term / Short-term	-	-	**-**	-	-	Oct 21, 2022	[ICRA]AA (Negative)/ [ICRA]A1+	Feb 25, 2022	[ICRA]AA (Negative)/ [ICRA]A1+
Commercial Paper	Short-term	75.00	**Aug 30, 2024**	**[ICRA]A1+**	Aug 10, 2023	[ICRA]A1+	Oct 21, 2022	[ICRA]A1+	Feb 25, 2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based limits	Simple
Long-term – Fund based / Term loans	Simple
Short-Term – Fund based limits	Simple
Short-term – Fund based/Non-fund based facilities	Simple
Short-term – Non-fund based limits	Very Simple
Commercial Paper Programme	Very Simple

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2020	NA	FY2027	52.00	[ICRA]AA(Positive)
NA	Term Loan-II	FY2019	NA	FY2027	162.50	[ICRA]AA(Positive)
NA	Cash Credit	NA	NA	NA	200.00	[ICRA]AA(Positive)
NA	Fund Based limits	NA	NA	NA	190.00	[ICRA]A1+
NA	Fund/ Non fund based limits	NA	NA	NA	50.00	[ICRA]A1+
NA	Non fund-based limits	NA	NA	NA	90.00	[ICRA]A1+
NA	Commercial Paper Programme*	Yet to be placed			75.00	[ICRA]A1+

*Source: Company; *Not issued by the company currently*

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

Annexure II: List of entities considered for consolidated analysis

Company Name	RIL Ownership	Consolidation approach
Rockman Industries Limited	(rated entity)	Full Consolidation
Rockman Advanced Composites Private Limited	51.01%	Full Consolidation
Rockman Technologies Private Limited	100.00%	Full Consolidation
Rockman Precision Private Limited	100.00%	Full Consolidation
Spares Superhero Private Limited	100.00%	Full Consolidation
Hero Electronix Private Limited	45.16%	Equity method
MCT Engineering Limited	13.77%	Equity method

Source: RIL Consolidated Annual report FY2024

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