November 21, 2024

Delux Bearings Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]BBB (Stable); Reaffirmed
Total	-	-	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Delux Bearings Private Limited (DBPL) factors in its established operational track record and the promoters' extensive experience of more than two decades in the bearings manufacturing business, which has helped it develop a wide customer base of reputed original equipment manufacturers (OEMs) and tier-I/II automotive suppliers across both domestic and export markets, resulting in repeat order inflows. Further, it has started witnessing operational and financial synergies with the Fersa Group, a leading global player in the bearings industry, which owns a 70% stake in the company. DBPL registered a ~12% YoY growth in revenues and a 240 bps YoY improvement in its operating profit margin (OPM), which rose to 9.8% in FY2024. ICRA expects the revenue growth momentum to continue and OPM to remain stable in the medium term, driven by access to technology for new products, newer geographies, clientele and supply chain for sourcing. The company is also catering to the customers of the Fersa Group, which led to an increased customer base.

The rating, however, remains constrained by DBPL's moderate scale of operations, resulting in limited economies of scale, and intensely competitive and fragmented nature of the industry, which limits the pricing flexibility of industry participants and restricts margin expansion. These factors, coupled with partial outsourcing of manufacturing activity, led to moderate profit margins. Moreover, the margins remain susceptible to adverse movements in raw material prices as well as foreign exchange rates, given the sizeable revenue contribution from exports. However, the latter risk is mitigated to an extent as the company hedges its forex exposure selectively. ICRA also notes the company's capital expenditure (capex) plans over FY2025 to FY2026 towards augmenting its manufacturing capacities and product mix, which are expected to be partly funded through debt. Despite that, the debt protection metrics are expected to remain comfortable with the expected scale-up of operations and improved internal accrual generation. Nonetheless, timely commissioning and ramping up of operations successfully will be monitored.

The Stable outlook on the rating reflects ICRA's opinion that DBPL's credit profile will be supported by scaling up of internal accruals, while maintaining comfortable coverage metrics, despite debt-funded capex over the near-to-medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the bearings business – Incorporated in 2000, DBPL manufactures and sells a wide variety of bearings, primarily for the automotive industry. Its established operational track record, coupled with extensive experience of the promoters in the industry, has enabled the company to scale up its operations. DBPL is managed by Mr. Rohan Rathod (Chairman & Managing Director), supported by a qualified and experienced management team. Also, Mr. Carlos Miguel Oehling and Mr. Pedro Pablo Andreu have joined as Directors, post the majority stake acquisition by the Fersa Group in FY2023.

Financial and operational synergies emanating from strong parentage – The Fersa Group, a Spanish company engaged in design, production and distribution of high-quality bearings for the global automotive and industrial markets, acquired a majority stake in DBPL in January 2023. The company factors in the benefits, which started emerging due to the operational and financial synergies from DBPL's integration with the Fersa Group, as reflected in a ~12% increase in revenues and 240 bps improvement in OPM in FY2024. ICRA expects the growth momentum to continue and OPM to remain stable in the medium term, driven by access to technology for new products, new geographies, clientele and supply chain for sourcing.

Well entrenched distribution network and established relationships with customers, including reputed companies – DBPL primarily caters to the commercial vehicle (CV) segment, followed by passenger vehicles (PVs), three-wheelers (3Ws), off-highway vehicles and tractors. This exposes the company to the cyclicality inherent in the CV industry, although the same is mitigated to some extent by its widening product portfolio and increasing revenue share from other segments. Over the years, the company has developed a wide and a diversified customer base of reputed international and domestic customers. Further, it enjoys established relationships with its key customers, resulting in repeat orders. Also, DBPL's recent integration with the Fersa Group is expected to further widen its clientele, product profile and geography.

Diversified revenue stream across both domestic and export markets – DBPL has a diversified geographical presence in both the domestic and export markets, thus insulating it to an extent from the moderation in demand from any one market. In FY2024, exports accounted for ~36% of its revenue (previous year [PY] – ~30%), while aftermarket sales accounted for ~38% of its revenue (PY – ~41%) and sales to auto OEMs/tier-I companies accounted for ~27% (PY – ~30%) of the revenues. Going forward, association with the Fersa Group would help the company in widening its presence in the exports market. Moreover, its aftermarket sales continue to be supported by an established brand and well-entrenched distribution network across the country.

Moderate leverage levels and comfortable debt protection metrics – The company's capital structure remains comfortable with limited reliance on external borrowings and steady internal accruals generation, as reflected in the total outside liabilities/ tangible net worth (TOL/TNW) ratio of 1.0 times (PY – 0.9 times) and TD/ TNW of 2.4 times (PY – 2.1 times) as on March 31, 2024. Given DBPL's debt-funded capex plans over FY2025-FY2026 towards adding new machinery to augment its manufacturing capacities and product mix, its debt levels are expected to increase to some extent in FY2026. Despite the same, the debt protection metrics are expected to remain comfortable with the likely scale-up of operations and improved internal accrual generation.

Credit challenges

Moderate scale of operations, leading to limited economies of scale – Despite posting a healthy revenue growth in the past few years, the company's scale of operations remains moderate with revenues of Rs. 232.5 crore in FY2024, thus translating into limited economies of scale. Nonetheless, the company has been able to demonstrate a steady scale-up in the past fiscals, which coupled with the addition to the product mix and an increase in manufacturing capacities, is expected to drive future revenue growth. Moreover, DBPL is expected to benefit from the established presence and network of the Fersa Group.

High competitive intensity limits pricing flexibility – The company faces stiff competition from other organised and unorganised players, which limits its pricing flexibility and bargaining power with suppliers and customers, thus constraining margins to some extent. However, the company benefits to an extent from its established brand, wide distribution network and a diversified revenue stream.

Moderate profit margins owing to partial outsourcing of manufacturing activity – The company outsources production for a sizeable part of its sales and procures semi-processed components for the balance, limiting the value addition in its operations. Besides vulnerability to raw material price volatility, intense competition and limited economies of scale, this results in moderate profit margins for DBPL. Nonetheless, increasing economies of scale and diversification of the product mix (with the Fersa Group acquiring the majority stake), are expected to reduce its input costs and improve margins gradually. Also, DBPL's margins remain susceptible to adverse movements in foreign exchange (forex) rates, given the sizeable revenue contribution from exports. However, the risk is mitigated to an extent as the company hedges its forex exposure selectively.

Liquidity position: Adequate

DBPL's liquidity remains adequate, supported by steady internal accruals generation and free cash and bank balances/liquid investments of ~Rs. 8.2 crore as of March 31, 2024. Further, the company has sufficient cushion in the form of its undrawn working capital lines with an average working capital utilisation of 65% during the last 15 months ended in August 2024. The company will be incurring capex of Rs. 30 crore during FY2025-FY2026, which will be funded through a mix of debt and internal accruals. Moreover, it has debt repayment liability of Rs. 4.0-10.0 crore p.a. during this period, which is expected to be comfortably met through its internal accrual generation.

Rating sensitivities

Positive factors – ICRA could upgrade DBPL's rating if it demonstrates a steady growth in its revenues and earnings, along with strengthening its liquidity profile and maintaining its debt protection metrics.

Negative factors –Pressure on DBPL's rating could arise if there is a considerable decline in revenues and internal accrual generation or higher-than-anticipated debt-funded capex or a deterioration in the working capital cycle that impacts the company's liquidity position and debt coverage metrics. Specific credit metrics that could lead to a rating downgrade include Total Debt/OPBDITA of more than 2.7 times on a sustained basis.

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 DBPL. As on March 31, 2024, the company had one subsidiary, which is enlisted in Annexure-II.

About the company

Incorporated in 2000, DBPL manufactures and sells a wide variety of bearings, primarily for the automotive industry. It sells its bearings under the 'Delux' brand in the domestic market, and its manufacturing facilities are at Surendra Nagar and Rajkot in Gujarat. The company has been promoted by the Rathod family and it caters to export markets, OEMs and aftermarket demand for bearings and automotive parts. In January 2023, the Fersa Group, a Spanish company involved in design, production and distribution of high-quality bearings for the global automotive and industrial markets, acquired a majority stake in DBPL.

Key financial indicators (audited)

DBPL – Consolidated	FY2023	FY2024
Operating income	207.5	232.5
PAT	8.6	9.6
OPBDIT/OI	7.4%	9.8%
PAT/OI	4.2%	4.1%
Total outside liabilities/Tangible net worth (times)	1.1	1.3
Total debt/OPBDIT (times)	2.1	2.4
Interest coverage (times)	8.9	5.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Nov 21, 2024	Aug 09, 2023	Aug 05, 2022	-
1	Issuer rating	Long-term	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer Rating**	-	-	-	-	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	DBPL Ownership	Consolidation Approach
Dlxinfinity Driveline Private Limited*	100.0%	Full consolidation

*Source: Company data * DBPL has acquired this entity from the erstwhile shareholders and is a wholly owned subsidiary w.e.f September 8, 2021*

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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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