

ATC Tires Private Limited

November 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	2,025.00 (Enhanced from 1,265.00)	CARE AA+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of ATC Tires Private Limited (ATPL) continue to factor its presence in the niche segment manufacturing 'Off-The-Road' (OTR) tyres which results in higher-than-average margins for the company. It also factors in the strong synergies, in terms of brand image, distribution network and procurement optimisations, from the parent, Yokohama Rubber Company Limited (YRC; Japan), along with experienced management in manufacturing OTR tyres. Furthermore, substantial portion of the sales are to group companies which reduces the saleability risk to large extent.

ATPL reported YoY growth of 17.77% in its total operating income (TOI) on a consolidated basis in FY23 majorly driven by increased realisation while volumes remained flat with 97% sales derived from export sales. Furthermore, the company derives its major revenue from replacement market demand. Due to the niche segment, the company generally enjoys higher-than-average operating margins, further with softening in the raw material prices the earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins have improved from 17.3% in FY22 to 24.10% in FY23. Furthermore, the company had also undertaken multiple price increase to offset higher commodity costs which contributed to higher sales value in FY23. The margins are expected to further gradually improve, as the commodity prices and freight costs have started cooling down.

In November 2019, a wholly-owned subsidiary has been set up in the name of ATC Tires AP Pvt Ltd for capacity expansion. The subsidiary has set up a new manufacturing facility for production of tyres to be used in agriculture, forestry, construction, industrial and earth-moving appliances at Vishakhapatnam, Andhra Pradesh. The capex was fully funded by debt for setting up the facility. The first phase has commenced operations from August 16, 2022. Furthermore, ATC AP under Phase 2 of capex plans to expand the current capacity from 50,000 tonnes to 90,000 tonnes, and with Phase 3 plans to enter the Passenger car tires (PCR) segment. The Phase 1 incurred a project cost of USD 165 million. The estimated costs for Phase 2 and Phase 3 expansions are approximately USD 129.5 million and USD 82 million, respectively. Phases 2 is funded primarily through debt, with around USD 129.5 million sourced from its ultimate parent company, YRC. The phase 3 expansion will be funded through bank loan.

The ratings continue to derive strength from the fact that, despite debt-funded capex being undertaken by ATPL under its subsidiary company, ATC Tires AP Private Limited, ATCL (consolidated) continues to have comfortable debt coverage indicators in FY23. With the debt-funded capex in ATC AP and slowdown in Off highway tires (OHT) exports, the gearing and revenue is expected to see some moderation in the near future, with gearing expected to reach 0.83x in FY24. However, the entity is a step-down subsidiary of the YRC and thus derives benefit in terms of financial flexibility, distribution network which is further supported by strong gross cash accruals (GCA) and liquidity position. Higher-than-expected debt-funded capex impacting the capital structure and debt coverage ratios will remain key monitorable.

The rating strengths are partially offset by vulnerability of profitability margins to volatility in raw material prices, regulatory changes in importing countries, competition and implementation-related risks with respect to the upcoming expansion project.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Significant improvement in market share leading to leadership position in the tyres segment.
- Improvement in total debt/profit before interest, lease rentals, depreciation and taxation (PBILDT) below 0.2x on a sustained basis.

Negative factors

- Deterioration in net debt /PBILDT (excluding debt from parent) beyond 1.5x on a sustained basis.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted a consolidated approach and has considered the consolidated financials of ATPL and its wholly-owned subsidiary company, ATC Tires AP Private Limited. Both the companies are in the same line of business, as is mentioned in Annexure-6. The ratings continue to derive comfort from strong parentage and superior financial flexibility enjoyed by the entity, as it is a part of Yokohama Group, Japan.

Outlook: Stable

The stable outlook reflects the sustenance of improvement in the operating and financial risk profiles of the company amidst healthy cash flow generation from operations.

Detailed description of the key rating drivers:**Key strengths****Strong parentage and experienced management**

ATPL is a part of the Yokohama Off-High Tires (YOHT), which is a part of YRC, one of the third-largest tyre manufacturing companies in the world. ATPL continues to benefit from the parent in the form of shared resources like marketing and finance terms, and raw material procurement for ATC done at the YRC group level. Substantial portion of the company's revenue is derived from the sales to fellow group companies in US and Europe (which are subsidiaries of YRC) and mitigates saleability risk to an extent for the newly added capacities. The operations of ATPL are managed by experienced professionals having considerable experience and long track record in the OTR tyre industry.

Improved TOI with improvement in operating margins in FY23

ATPL reported a YoY growth of 17.77% in its TOI in FY23 on a consolidated basis largely driven by higher exports sales. It continued to generate over 97% of its TOI from export sales. With the presence in the OTR segment, and high demand in the replacement market, the company is able to garner higher margins vis-à-vis the competitors present in the original equipment manufacturers (OEM) segment. Due to the niche segment, the company generally enjoys higher-than-average operating margins, further with softening in the raw material prices the EBITDA margins have improved from 17.3% in FY22 to 24.10% in FY23. CARE Ratings expects the softening in the raw material prices and cooling off of freight costs to further improve the margins going forward.

Comfortable leverage and debt coverage indicators

The capital structure and debt coverage metrics of the company remains comfortable despite the ongoing capex in its subsidiary. The overall gearing increased to 0.53x in FY23 (PY: 0.51x) owing to increase in foreign currency term loan, as the company has setup a manufacturing facility (a wholly owned subsidiary) in Andhra Pradesh. The interest coverage has reduced from 65.22x in FY22 to 23.39x in FY23 due to increase in the interest cost owing to the increased debt and increased interest rates. CARE Ratings expects the debt coverage indicators of ATPL to moderate in the near future with the debt-funded capex being undertaken in Andhra Pradesh subsidiary.

Key weakness**Susceptibility to volatility in the raw material prices and currency risk**

The principal raw materials of ATPL are natural rubber and synthetic rubber. The prices of key raw material account for around 45-50% of ATPL's aggregate production costs. The profitability tends to be volatile as they depend on global demand, and crude oil prices. However, as indicated by the management, ATPL is largely able to pass on the increase in input prices with a certain lag. For ATPL, the currency risk primarily arises from foreign currency and purchase of raw material in USD. The company actively hedges foreign exchange risk using derivative instruments like forward contracts and cross currency options for the export receivable. Furthermore, the borrowings are also in foreign currency in order to have benefit of natural hedge and lower interest cost.

Liquidity: Strong

The liquidity position of the company is considered robust as the cash and bank equivalent as on March 31, 2023 was ₹302.69 crore vis-à-vis ₹401.17 crore in the previous year on a consolidated basis, and ₹176.89 crore as on June 30, 2023 on standalone basis. The company is expected to make GCA of around ₹961 crore owing to improvement in the operating margins with cooling of raw material prices. The company has an average fund-based and non-fund-based utilisation levels to the tune of around 45% as on August 2023.

Applicable criteria

[Auto Ancillary Companies](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Manufacturing Companies](#)

[Policy on default recognition](#)

[Policy on Withdrawal of Ratings](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Rubber

ATPL is a part of YOHT . It is engaged in the development, manufacturing, trading, distribution, sales and marketing of specialised tyres used in agriculture, forestry, construction, industry and earth-moving applications to OEM and in the after-sales market, mainly under the Alliance, Galaxy, and Primex Brands (that are owned by other ATG group entities).

YOHT is a prominent entity in the global (OTR) tyres business. On July 1, 2016, YOHT became a wholly-owned subsidiary of YRC, Japan. Yokohama is the world’s seventh-largest tyre manufacturer. The Group has three manufacturing facilities, one at Hadera in Israel (ATI), and two facilities in India (ATC) (one in Tirunelveli, Tamil Nadu and another in Dahej, Gujarat). Apart from its own manufacturing facilities, ATG also gets tyres produced by contract manufacturers in China and Taiwan.

Brief Financials (₹ crore)	March 31, 2021 (A) Consolidated	March 31, 2022 (A) Consolidated	March 31, 2023 (A) Consolidated	Q1FY24 (Prov) Standalone
Total operating income	3,655.98	5,406.30	6,366.46	1,256.64
PBILDT	1,060.40	934.41	1,534.61	379.19
PAT	605.67	492.41	806.71	225.38
Overall gearing (times)	0.28	0.51	0.53	-
Interest coverage (times)	52.52	65.21	23.39	51.10

A: Audited; Prov: Provisional; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	2025.00	CARE AA+; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	2025.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (18-Oct-22) 2)CARE AA+; Stable / CARE A1+ (06-Oct-22)	1)CARE AA+; Stable / CARE A1+ (07-Oct-21)	1)CARE AA+; Stable / CARE A1+ (29-Sep-20)
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	1)CARE AA+; Stable / CARE A1+ (18-Oct-22) 2)CARE AA+; Stable (06-Oct-22)	1)CARE AA+; Stable (07-Oct-21)	1)CARE AA+; Stable (29-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of entities considered for consolidation as on March 31, 2023

Particulars of subsidiaries	% holding (direct + indirect)	Country of Incorporation
Direct subsidiaries		
ATC Tires AP Private Limited	100	India

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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