

ATC Tires Private Limited

December 02, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of ATC Tires Private Limited (ATPL) continue to derive strength from the strong synergies, in terms of brand image, distribution network and procurement optimisations, from ultimate parent, Yokohama Rubber Company Limited (YRC; Japan), and experienced management in manufacturing 'Off-The-Road' (OTR) tyres. Substantial portion of the sales are to group companies, which reduces the saleability risk to a large extent. Ratings also factor ATC's presence in the niche segment of OTR tyres, which results in higher-than-average margins for the company, its robust financial risk profile characterised by strong debt coverage indicators, and strong liquidity position.

The above rating strengths largely offset vulnerability of profitability margins to raw material price volatility, regulatory changes in importing countries, competition, and implementation-related risks with respect to the upcoming expansion project in ATPL's subsidiary.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Significant improvement in market share resulting in 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 ultimate parent) beyond 1.5x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of ATPL owing to strong operational, financial, and management linkages with its subsidiary. The entity is in the same line of business, sells under common brands, and have common management and control. The entities considered in consolidation are mentioned in **Annexure-6** below. Strong operational, financial, and managerial linkages have been factored with its parent, YRC.

Outlook: Stable

CARE Ratings believes ATPL will continue to sustain its healthy business and financial risk profiles on the back of its established position in OTR segment of the tyre industry.

Detailed description of key rating drivers:

Key strengths

Strong parentage and experienced management

ATPL is a part of the Yokohama Off-High Tires (YOHT), which is ultimately a part of YRC, one of the eighth-largest tyre manufacturing companies in the world. ATPL continues to benefit from the parent in the form of shared resources such as marketing, finance, 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), which mitigates saleability risk to an extent for the newly added capacities. ATPL's operations are managed by experienced professionals having considerable experience and long track record in the OTR tyre industry.

Healthy operating profitability likely to moderate in FY25 due to rising raw material prices

ATPL reported sales degrowth of 13% in FY24 due to slowdown in OHT exports. However, on the back of reduction in input costs, its PBILDT margin improved from 23.88% in FY23 to 26.29% in FY24. Its PBILDT margin has remained higher-than average over the years mainly because of its established presence in OTR tyres, and its major revenue comes from the replacement market. CARE Ratings observes, going forward, its PBILDT margin is expected to moderate in FY25 essentially on the back of rise in rubber and other input costs.

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

Comfortable leverage and debt coverage indicators despite debt-funded capex

The capital structure and debt coverage metrics of the company remain comfortable despite the ongoing capex in its subsidiary. Under its subsidiary, ATC Tires AP Private Limited (ATC AP), ATPL is executing capacity expansion from current capacity of 50,000 tonnes to 96,000 tonnes under Phase 2, and with Phase 3 it has 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 ~USD 129.5 million and USD 82 million, respectively. Phase 2 is being funded primarily through debt, with ~USD 129.5 million sourced from its ultimate parent company, YRC. The Phase 3 expansion will be funded through bank loan. Phase 2 and Phase 3 are expected to be completed gradually by December 2025.

Debt-funded capex has led to moderation in overall gearing to 0.64x in FY24 (PY: 0.53x). The interest coverage has reduced from 23.23x in FY23 to 12.39x in FY24 due to increase in the interest cost owing to the increased debt. CARE Ratings expects the debt coverage indicators of ATPL to moderate by end FY25 on the back of debt-funded capex being undertaken in ATC AP and start to improve gradually from FY26.

Liquidity: Strong

The liquidity position of the company stood strong as the cash and cash equivalents as on March 31, 2024 was ₹376.84 crore against ₹295.16 crore in the previous year on a consolidated basis, and ₹501.81 crore as on September 30, 2024 on standalone basis. The company is expected to earn GCA of over ₹1,000 crore p.a., which would be more than sufficient to meet its term debt repayment and working capital requirements. The company has an average fund-based and non-fund-based working capital limit utilisation level to the tune of ~32% for the last 12 months ended September 2024.

Key weaknesses

Susceptibility to volatility in raw material prices and currency risk

ATPL's principal raw materials are natural rubber and synthetic rubber. The key raw material prices account for ~45-50% of ATPL's aggregate production costs. The profitability tends to be volatile on the back of raw material price volatility. 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. The borrowings are also in foreign currency to benefit from natural hedge and lower interest cost.

Exposed to intense competition in industry and cyclicity in the tyre industry

The OTR tyres largely depend on the level of economic activity, as they are used in the construction and mining activities. Thus, the industry is subject to cyclicity and vagaries of economic cycles. The agricultural tyres depend on monsoon patterns. ATPL also faces intense competition from other players in the market; however, it is partly mitigated by substantial portion of the company's revenue being derived from the sales to fellow group companies in US and Europe (which are subsidiaries of YRC).

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Tyres & Rubber Products

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 one of the leading tyre manufacturers globally. The Group has four manufacturing facilities, one at Hadera

in Israel (ATI), two facilities in India (ATC) (one in Tirunelveli, Tamil Nadu and another in Dahej, Gujarat) and one facility in Visakhapatnam, India (ATC AP). Apart from its own manufacturing facilities, ATG also gets tyres manufactured by contract manufacturing in China and Taiwan.

Brief Financials (₹ crore)	FY23 (A) Consolidated	FY24 (A) Consolidated	H1FY25 (Prov.) Standalone
Total operating income	6,347.87	5,502.64	2,287.39
PBILDT	1,524.16	1,454.44	477.92
PAT	806.17	687.10	232.88
Overall gearing (times)	0.53	0.64	0.11
Interest coverage (times)	23.23	12.39	29.76

A: Audited; Prov.: Provisional; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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 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 2024-2025	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
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+ (28-Nov-23)	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)

LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

Annexure-6: List of entities considered for consolidation as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	ATC Tires AP Private Limited	Full	Subsidiary with strong linkages

Note on complexity levels of 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 clarifications.

Contact us

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About us:

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