



Press Release

Seth Industrial Corporation

July 01, 2024

Ratings

| Security Facility / | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|----------------------------|--|--|--|---------------|----------------------|
| Long Term Bank Facilities | 61.24 (reduced from 67.60) | IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook) | IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook) | Reaffirmed | Simple |
| Short Term Bank Facilities | 55.00 (enhanced from 50.00) | IVR A3 (IVR A Three) | IVR A3 (IVR A Three) | Reaffirmed | Simple |
| Total | 116.24 (Rupees one-hundred and sixteen crore and twenty-four lakh only) | | | | |

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed its rating assigned to the bank facilities of Seth Industrial Corporation (SIC) and continues to draw comfort from its established track record of operation under experienced partners, reputed brand name, geographically diversified market position, favourable demand prospect of its products. Further, the ratings also note stable business performance of the firm marked by consistent growth in scale of operation and profitability. However, these rating strengths are partially offset by its presence in competitive industry, working capital intensive nature of operations leading to leveraged capital structure with moderate debt protection metrics and partnership nature of its constitution.

Infomerics Ratings has assigned stable outlook considering the factor that demand for bicycles and e-vehicles will rise with increase in fuel prices. Thus, the outlook for SIC is expected to remain stable in the medium term.

Key Rating Sensitivities:

Upward Factors

- Growth in the scale of operation along with improvement in profitability and debt protection metrics on a sustained basis.
- Improvement in the capital structure marked by improvement in overall gearing to below 1.5x



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- Improvement in operating cycle leading to improvement in liquidity.

Downward Factors

- Moderation in scale of operation and/or moderation in profitability impacting the gross cash accruals on a sustained basis.
- Moderation in the capital structure leading to moderation in overall gearing to over 3x and/or moderation in debt protection metrics marked by dip in interest coverage to below 1.5x
- Moderation in liquidity position marked by stretch in operating cycle.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of operation under experienced partners

SIC was established in 1964 and has long standing track record of more than five decades in the bicycle industry. The firm operates under experience partners all having more than three decades of experience in the industry. SIC manufactures bicycles and e-vehicles under the established brand name “Neelam” in Ludhiana, Punjab. The partners have infused subordinated unsecured loans amounting to Rs.7.23 crore during FY23 (FY refers to the period from April 01 to March 31) to support the operations of the firm.

Reputed brand name coupled with geographically diversified market position

SIC manufacture bicycles, e-cycles and e-rickshaws under the brand name ‘Neelam’ for all age group. SIC’s business is widespread across more than 20 states in India and it also exports around 1% of its total sales to Nepal and UK. Hence, the firm has geographically diversified market position. SIC’s distribution network is widespread with around 450 dealers throughout the country.

Stable business performance

The total operating income increased from Rs. 257.84 crore in FY23 to Rs. 271.46 crore in FY24 (prov.) [FY refers to the period from April 01 to March 31] registering a Y-o-Y growth of ~5%. The rise in operating revenue is due to improvement in sales realisation of e-rickshaws along with increase in sales of spare parts. SIC has started production of e-cycle from FY24 which contributed ~0.12% of the total sales. The profit margins of the firm have improved over the past three fiscals in line with the revenue. The EBITDA margin stands at 6.91% in FY24 (prov.) as compared to 6.20% in FY23 and the PAT margin stands at 1.90% in FY24 (prov.) as compared to 1.84% in FY23.



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Favourable demand prospect

SIC manufactures bicycles and e-vehicles under the established brand name “Neelam” in Ludhiana, Punjab. The demand prospect of the products of the firm is favourable in view of its non-polluting nature.

Key Rating Weaknesses

Presence in competitive industry

The firm continues to face stiff competition from large players in India and also from China, who is the largest producer of bicycles globally and most of the products are for export. SIC operates in a competitive industry which restricts pricing flexibility and large players who enjoy economies of scale are price makers in the market.

Leveraged capital structure with moderate debt protection metrics

The capital structure of SIC as depicted by overall gearing ratio has deteriorated as on March 31, 2024 (prov.) to 2.61x from 2.10x as on March 31, 2023. The deterioration in gearing is due to increase in working capital borrowings to fund its increased scale of operations. Total indebtedness of the firm as depicted from TOL/ATNW stands at 3.41x as on March 31, 2024 (prov.), against 3.31x as on March 31, 2023. The debt protection metrics of the firm, though deteriorated stands moderate with interest coverage of 1.86x in FY24 (prov.) as compared to 2.00x in FY23. The decline in interest coverage is due to increase in finance charges. Further, Total debt/NCA has deteriorated to 18.17 years as on March 31, 2024 (prov.) from 14.34 years as on March 31, 2023, due to rise in debt level.

Working capital intensive nature of operations

The operations of the firm remained working capital intensive over the past three years marked by its elongated operating cycle. The operating cycle has deteriorated to 154 days in FY24 (prov.) from 111 days in FY23 due to increase in receivable days from 114 days in FY23 to 129 days in FY24 (prov.) as well as inventory holding period from 66 days in FY23 to 86 days in FY24 (prov.). The average CC utilisation for past 12 months ended March 2024 remains high at ~85%.

Partnership nature of constitution

Given SIC’s constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement, or insolvency of the partners. Moreover, the partnership nature limits SIC’s flexibility to tap external channels of financing.



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Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity – Adequate

The liquidity position of the firm is expected to remain adequate in the near term marked by its expected gross cash accruals in the range of ~Rs. 8.57-9.79 crore as against its debt repayment obligation of ~Rs.1.56-5.87 crore during FY25-FY27. However, the average working capital utilisation of the firm in 12 months ended in March 2024 remained high at ~85% indicating limited liquidity buffer.

About the Firm

Seth Industrial Corporation (SIC) is a partnership firm established in 1964 by late Mr. B.K Seth and his brother Mr. K.K. Seth and is engaged in manufacturing of complete bicycles under the brand name “Neelam”. SIC manufactures bicycles for every age group starting from 5 years. The size of the bicycles varies from 14T to 26T. SIC has a production capacity of 15 lakh bicycles per annum and the network of the firm is widespread which includes around 500 primary and 10000 secondary dealers across the country. Since 2017, the firm has entered in manufacturing of e-rickshaw, e-loader, e-auto, e-scooter, e-cycle which are non-polluting, noise free and eco-friendly means of transport. The firm has ventured into e-cycle segment from FY24.

Financials (Standalone):

| For the year ended/ As on* | (Rs. crore) | |
|-----------------------------|-------------|-------------|
| | 31-03-2023 | 31-03-2024 |
| | Audited | Provisional |
| Total Operating Income | 257.84 | 271.46 |
| EBITDA | 15.99 | 18.77 |
| PAT | 4.74 | 5.17 |
| Total Debt | 91.43 | 124.94 |
| Tangible Net Worth | 36.33 | 40.68 |
| Adjusted Tangible Net Worth | 43.56 | 47.91 |
| EBITDA Margin (%) | 6.20 | 6.91 |
| PAT Margin (%) | 1.84 | 1.90 |



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| | | |
|---------------------------|------|------|
| Overall Gearing Ratio (x) | 2.10 | 2.61 |
| Interest Coverage (x) | 2.00 | 1.86 |

* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: The ratings of Seth Industrial Corporation has been continued to be classified under Issuer Not Cooperating category by Brickwork ratings as per Press Release dated June 17, 2024, due to unavailability of information.

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Security/Facilities | Current Ratings (Year 2024-2025) | | | Rating History for the past 3 years | | |
|---------|-----------------------------|----------------------------------|--------------------------------|------------------|---|---|---|
| | | Type (Long Term/Short Term) | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 |
| | | | | | June 29, 2023 | - | - |
| 1. | Term Loans/ GECL | Long Term | 11.24 | IVR BBB-; Stable | IVR BBB-; Stable | - | - |
| 2. | Cash Credit | Long Term | 50.00 | IVR BBB-; Stable | IVR BBB-; Stable | - | - |
| 3. | Bill Discounting | Short Term | 35.00 | IVR A3 | IVR A3 | - | - |
| 4. | Bank Guarantee | Short Term | 20.00 | IVR A3 | IVR A3 | - | - |

Analytical Contacts:

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.



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Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

| Name of Facility/ Security | ISIN | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|----------------------------|------|------------------|------------------|---------------|------------------------------|--------------------------|
| GECL | - | - | - | Dec 2025 | 5.77 | IVR BBB-; Stable |
| GECL | - | - | - | Oct 2027 | 5.47 | IVR BBB-; Stable |
| Cash Credit | - | - | - | - | 50.00 | IVR BBB-; Stable |
| Bill Discounting | - | - | - | - | 35.00 | IVR A3 |
| Bank Guarantee | - | - | - | - | 20.00 | IVR A3 |

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-Seth-Industrial-juj24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.