

April 24, 2023

Fitwel Tools and Forgings Pvt. Ltd.: Ratings Reaffirmed, rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|---|
| Long-term Fund-based – Term Loan | 24.10 | 28.12 | [ICRA]A- (Stable); Reaffirmed/Assigned |
| Long-term – Fund-based Working Capital | 23.50 | 29.50 | [ICRA]A- (Stable); Reaffirmed/Assigned |
| Short-term – Non-fund Based | 6.00 | 6.00 | [ICRA]A2+; Reaffirmed |
| Total | 53.60 | 63.62 | |

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings consider the strong operational and financial flexibility enjoyed by Fitwel Tools and Forgings Pvt. Ltd. (Fitwel/ the company) by virtue of being a 70%-subsidiary of Sansera Engineering Limited (Sansera; rated [ICRA]AA- (Stable)/ [ICRA]A1+). Sansera is expected to extend financial support to Fitwel, if required, given the high strategic importance that Fitwel holds for Sansera in meeting its core operations. Sansera is an established tier-1 supplier to the top two-wheeler and four-wheeler original equipment manufacturers (OEMs). The ratings also take comfort from Fitwel’s long track record of operations, diversified product mix and established relationships with its existing customers such as Sansera and Bosch Limited (Bosch), among others. The ratings also factor in the healthy operating margin despite the inflationary environment and improvement in working capital intensity during FY2022 and 9M FY2023.

The ratings are constrained by Fitwel’s small scale of operations with revenues of Rs. 130.2 crore in FY2022 and Rs. 126.1 crore in 9M FY2023, restricting the benefits of economies of scale to a certain extent. However, the scale of operations is expected to improve in FY2023 and FY2024 on the back of revival in demand from the automotive industry in addition to its established relationship with customers. The ratings are also constrained by the high customer concentration risk, with the top three customers accounting for ~72.8% of revenues in 9M FY2023, and the high geographical concentration risk as the company derives its entire revenues from the domestic market. ICRA notes Fitwel’s moderate debt protection metrics with interest coverage of 6.3x in 9M FY2023 and total debt/ OPBDITA of 1.7x as on December 31, 2022, and its exposure to the cyclicity inherent in the automotive industry.

The Stable outlook on the rating reflects ICRA’s expectation that Fitwel will continue to benefit from its strong parentage, long track record of operations, well-diversified product mix and established relationships with its customer base.

Key rating drivers and their description

Credit strengths

Strong promoter background; track record of operational and management support on need basis from parent company –

Fitwel has a strong promoter background with the promoters having over 35 years of experience in the forging industry. Further, the company enjoys significant operational and financial flexibility as it is a 70%-subsidiary of Sansera. Sansera is expected to extend financial support to Fitwel, if required, given the high strategic importance that Fitwel holds for Sansera in meeting its core operations. Sansera and Fitwel also share key management personnel. The company has had a steady inflow of orders from Sansera for rocker arms, connecting rods, crankshafts, gear shifter forks and other auto components, which accounted for 38.2% of its revenues in 9M FY2023, thereby continuing to support its revenue prospects.

Well-diversified product mix and established relationships with existing customer base – The company has a diversified product mix with revenues in 9M FY2023 generated from products such as rocker arms (17.6%), cam shafts (13.5%), gear shifter (9.3%), pump barrels (6.7%), Link & Flange (5.4%), connecting rods (4.4%), etc. It has long-term relationships with its customers such as Bosch, Sansera, Delphi, Stanadyne Group and others, which are tier-1 auto component manufacturers, and enjoys single source supplier status for certain components with some of its customers. The company added Roop Automotives Limited (Roop Auto) to its key customers in FY2023. Through Roop Auto, the company would be supplying tech agnostic parts such as steering wheels. Apart from Roop Auto, the company added customers like INDO MIM (for mining, excavator parts), Maini Auto Components (for aerospace and auto parts) and Cummins (for stationary engines parts) during FY2023. Addition of these customers is expected to aid diversification of revenues across its customer base and is likely to support business prospects, going forward.

Healthy operating margin and improvement in working capital intensity – Fitwel's operating margin improved marginally to 13.9% in FY2022 from 13.7% in FY2021, despite inflationary environment on the back ability of the company to pass on the raw material price hikes, higher contribution from high margin products and various cost saving initiatives. Operating margin improvement since FY2019 is driven by supply of margin accretive BS VI components compared to several lower margin BS IV components supplied earlier. With the correction in the selling prices of its products following the fall in steel prices in October 2022, coupled with the higher-priced inventory of steel stocked up by the company in anticipation of higher demand, operating margin contracted by 90 bps during 9M FY2023. The company's working capital intensity remains moderate, though improved, with NWC/OI improving to 16.4% and 18.0% during FY2022 and 9M FY2023, respectively, from 23.7% in FY2021. This improvement is driven by a shorter payment cycle from its major customers and its ability to maintain relatively low inventory levels as a result of continuous efforts to optimize inventory levels and reduced rolling cycles by the steel mills. Going forward, Fitwel's ability to maintain higher profit margins and sustain its current working capital intensity remain key monitorables.

Credit challenges

Small scale of operations limits operational flexibility and scale – Fitwel's small scale of operations restricts its operational flexibility and the benefits from the economies of scale to a certain extent. However, the company achieved a revenue of Rs. 126.1 crore in 9M FY2023 and is expected to achieve a revenue of ~Rs. 160-165 crore in FY2023, a ~25% growth from Rs. 130.2 crore in FY2022 on the back of improved demand for its products from end customers. The revenue growth is expected to continue in FY2024 on the back of ongoing capacity expansion and healthy business prospects.

High geographical and customer concentration risks – With 72.8% of its revenues in 9M FY2023 generated from its top three customers (77.1% in FY2022), namely Sansera (38.2%), Bosch (28.6%) and the Stanadyne Group (6.1%), the company is exposed to high customer concentration. Moreover, Fitwel derived its entire revenues from the domestic market in 9M FY2023, resulting in high geographical concentration risk. However, the risk is mitigated to a certain extent given the company's well-established relationships with its customer base, coupled with the top revenue-generating customer being its parent company.

Financial profile characterised by moderate debt protection metrics – The company's financial profile is characterised by moderate capitalisation and coverage indicators with a gearing and Total Debt/OPBDITA of 0.8x and 1.7x, respectively, as on December 31, 2022, and interest coverage of 6.3x for 9M FY2023. Leverage and coverage indicators are expected to moderate during FY2023 on account of debt-funded capex. With expected improvement in net cash accruals resulting in steady accretions to net-worth and scheduled repayment of term loans, the gearing and coverage indicators are expected to improve from FY2024.

Exposure to cyclicity in the automotive industry – The company is exposed to the cyclicity inherent in the automotive industry, exposing its revenues to the cyclicity in demand from the automotive industry. However, Fitwel's strong parentage and well-established customer relationships partially mitigate this risk to a certain extent.

Liquidity position: Adequate

Fitwel's liquidity position remains adequate with cash and cash equivalents of Rs. 0.4 crore as on December 31, 2022. Its average working capital utilisation was ~84.0% of the sanctioned limits between December 2021 and December 2022 with an available working capital buffer of Rs. 6.1 crore as on December 31, 2022 (against sanctioned limits of Rs. 29.2 crore). The company has planned capex of ~Rs. 11.0 crore during FY2023 for capacity expansion of its forging and machining capacity and the capex will be funded by a term loan of Rs. 6.0 crore and rest from internal accruals. The company has repayment obligations of Rs. 1.4 crore in Q4 FY2023, Rs. 5.0 crore in FY2024 and Rs. 3.3 crore in FY2025 for its existing debt. The company has healthy financial flexibility to enhance its working capital limits at short notice, aided by its strong parentage. Overall, ICRA expects Fitwel to be able to meet its near-term commitments through internal accruals and additional debt.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in the company's revenues and profitability. An improvement in the credit profile of the parent and primary customer, Sansera, could also have an impact on Fitwel's ratings.

Negative factors – Pressure on Fitwel's ratings could arise with a sharp decline in its revenues leading to the deterioration of its credit profile on a sustained basis. Pressure could also arise with the weakening of linkages with Sansera and in Sansera's credit profile as it is Fitwel's biggest customer as well as its parent company.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Rating Approach – Implicit parent or group support |
| Parent/Group Support | Parent/Group Company: Sansera Engineering Limited; the ratings are based on implicit support from the parent, Sansera. |
| Consolidation/Standalone | The ratings are based on the standalone financial statements of Fitwel. |

About the company

Established in 1983, Fitwel commenced commercial production from 1987 by manufacturing hand tools. It started manufacturing rocker arms for Maruti Udyog in 1992 through Sansera. Over the years, the company has diversified into other products and customers and became a subsidiary of Sansera in FY2005, with Sansera acquiring a 51% stake in Fitwel (40% stake till FY2004). In FY2014, an additional 19% stake was acquired, making Fitwel a 70%-subsidiary of Sansera. Fitwel was ISO/TS 16949:2009 certified in 2002 and has been ISO/TS 14000 certified since 2014.

Fitwel currently has about 17 forging lines comprising hammers, friction screw press and pneumatic press lines and a well-equipped CNC shop. It produces about 30 lakh forged components and 3.75 lakh machined components per month for various customers. The company's current scope for manufacturing is in precision forged components, ranging from 18 gm to 5,000 gm. All forging-related heat treatment operations under Fitwel are carried out in-house and are monitored and controlled by a metallurgical lab. Forging die and tool design/manufacturing is also carried out by the company's in-house design team. Fitwel is currently managed by Mr. DR Subramanya and family, who are the promoters holding about 30% stake in the company.

Key financial indicators (audited)

| Fitwel (standalone) | FY2021 | FY2022 | 9M FY2023* |
|--|--------|--------|------------|
| Operating Income (Rs. crore) | 107.6 | 130.2 | 126.1 |
| PAT (Rs. crore) | 6.2 | 4.8 | 6.3 |
| OPBDIT/OI (%) | 13.7% | 13.9% | 13.0% |
| PAT/OI (%) | 5.8% | 3.7% | 5.0% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.8 | 1.5 | 1.5 |
| Total Debt/OPBDIT (times) | 2.3 | 2.0 | 1.7 |
| Interest Coverage (times) | 5.4 | 5.5 | 6.3 |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA calculations. * Provisional.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current Rating (FY2024) | | | Chronology of Rating History for the past 3 years | | | | |
|------------------------------|------------|--------------------------|---|-------------------|---|-------------------|----------------|-------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount Outstanding as on Dec 31, 2022 (Rs. crore) | Date & Rating | Date & Rating in FY2023 | | | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | April 24, 2023 | March 31, 2023 | April 28, 2022 | - | Feb 05, 2021 |
| 1 Term loans | Long term | 28.12 | 13.40 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - | [ICRA]A- (Stable) | |
| 2 Fund-based bank facilities | Long term | 29.50 | 23.20 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - | [ICRA]A- (Stable) | |
| 3 Non-fund based facilities | Short term | 6.00 | - | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | - | [ICRA]A2+ | |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|--|----------------------|
| Long-term Fund Based – Term Loan | Simple |
| Long Term – Fund-based Working Capital | Simple |
| Short Term – Non-fund Based | 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 analyzing 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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|----------------------------------|-----------------------------|---------------|-----------------|--------------------------|----------------------------|
| NA | Term loans | FY2017 – FY2023 | 7.70% - 9.55% | FY2022 – FY2028 | 28.12 | [ICRA]A- (Stable) |
| NA | Fund-based facilities | NA | NA | NA | 29.50 | [ICRA]A- (Stable) |
| NA | Non-fund based facilities | NA | NA | NA | 6.00 | [ICRA]A2+ |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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