ICRA

July 07, 2017

Sansera Engineering Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	215.58	[ICRA]AA- (stable) / Reaffirmed
Long-term fund based facilities	162.50	[ICRA]AA- (stable) / Reaffirmed
Short-term fund based facilities	74.00	[ICRA]A1+ / Reaffirmed
Short-term non-fund based facilities	42.40	[ICRA]A1+ / Reaffirmed
Total	**494.48**	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding on the Rs.215.58-crore term loans and the Rs.162.50-crore long--term fund-based facilities of Sansera Engineering Private Limited (SEPL / the company)[1]. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs.74.00-crore short-term fund based facilities and the Rs.42.40 crore short-term non-fund based facilities of SEPL. The outlook on the long term rating is “stable”.

Rationale

The reaffirmation in ratings takes into account longstanding experience of promoters, SEPL’s strong wallet share and established relationships with major OEMs in both the two-wheeler and four-wheeler segments and healthy growth under the company’s exports segment which has enriched the overall sales mix of the company. The company’s financial profile continues to be characterized by healthy cash accruals, comfortable gearing of 0.6x, interest coverage ratio and TOL/TNW of 5.0x and 0.9x respectively as on March 31, 2017. While SEPL has debt-funded capital expenditure plans towards capacity expansion over the medium term, ICRA expects the company’s debt protection metrics to remain strong supported by steady accretion to reserves. SEPL’s recent investments in building aerospace capacities are also expected to support the company’s business prospects going forward.

ICRA also notes that SEPL continues to derive about 73% of its revenues from top five customers indicating significant client concentration and making it vulnerable to inherent volatility in the Indian automobile industry. The ratings continue to factor in the high working capital intensity (~28.8%) on account of increasing revenue share from exports leading to higher debtor days coupled with faster payment to creditors to secure better purchase terms. Going forward, SEPL’s ability to further diversify its business mix, sustain its healthy wallet share and sole supplier status with major customers and maintain its strong financial profile through the planned capital expenditure would be the key rating sensitivities.

[1] For complete rating scale and definition, refer ICRA’s website (www.icra.in) or other ICRA rating publications

Key rating drivers

Credit Strengths

- Long standing experience of the promoters in the Indian automotive industry; established relationship with major OEMs continues to support business prospects
- Strong growth under export sales has aided in enriching the overall sales mix; recent acquisition in Europe expected to further support company's exports prospects going forward
- Healthy scale-up and capacity expansion under aerospace components expected to support revenue and margin growth of the company going forward
- Ability to pass on increases in raw material costs to the customers helps limit volatility in margins to an extent
- Financial profile characterized by healthy cash accruals, comfortable capital structure and coverage indicators

Credit Weaknesses

- Exposure to the inherent cyclicality in the Indian automotive industry
- High customer concentration with top five customers accounting for about ~73% of the revenues during FY2017; continues to be high despite headway into new clients
- Fairly aggressive capital expenditure plans; however, healthy accruals likely to support capital structure and coverage metrics to a certain extent
- Moderately high working capital intensity on account of improving revenue share from exports leading to higher debtor days coupled with faster payment to creditors to avail better terms of costing

Description of key rating drivers highlighted above:

During FY2017, SEPL derived about 60% of its revenues from the two-wheeler segment, followed by 28.3% from the 4-wheeler segment while the balance was accounted for by the aerospace and other ancillary segments. Following healthy revenue growth of ~28.5% in FY2015, the company's revenue growth moderated to about 11.7% during FY2016 and FY2017 primarily on account of moderate performance of the domestic two-wheeler industry over the last two years. Further, the company's revenues were also affected by demonetization during H2 FY2017 which resulted in lesser than expected off-take from the OEMs. Going forward, with the recent acquisition, ICRA expects higher revenues from OEMs in the European region and also diversification into CV segment. Further, over the medium to long term, the company's revenue growth is also likely to be supported by tier-1 supplies in the aerospace segment.

The company's margins have steadily witnessed a decline during FY2016 and FY2017 primarily on account of the substantial capital expenditure done by the company over the last two years, renewal of its agreement with the company's labour union which led a spike in fixed expenses. Going forward, we expect the company's margins to improve gradually on back of healthy business prospects under relatively high-margin exports, improved product mix with improving share of revenues from high-margin products like four-wheeler connecting rods, tier-1 supplies of critical components to aerospace OEMs and expected improvement in utilizations of the company's facilities.

The company has witnessed steady in increase in its debt levels over the past few years on account of substantial debt funded capital expenditure to expand its capabilities to service both domestic and export customers. Further the company has also invested substantially in aerospace capacities which are expected to gain impetus from FY2019 with the company gaining tier-1 status with Boeing. While gearing of the company continues to remain healthy, TD/OPBDITA of the company has deteriorated from 1.8x as on March 31, 2015 to 2.1x as March 31, 2017. Going forward, while the overall debt levels of the company are expected to increase on account of planned capital expenditure to the tune of Rs.100-150 crore per annum over the next 2-3 years, the debt protection metrics are likely to remain supported on back of healthy operating accruals with established position in the domestic market and expanding presence in both export markets and aerospace.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria
Corporate Credit Rating Methodology
Rating Methodology- Auto component manufacturers

About the company:
SEPL, head quartered in Bangalore, is primarily engaged in the machining of precision engine forged components such as Rocker Arms, Connecting Rods, Crank Shaft Assembly, Gearshifter Forks etc for both four wheeler and two wheeler segments. SEPL had also recently forayed into manufacturing aerospace components. With negligible spare sales, SEPL primarily caters to OEMs such as BAL, HMSI, MSIL, Honda Cars India and Yamaha Motors India. The company also exports components to renowned global OEMs such as Ducati Motor Holding S.P.A (Italy), Fiat (Italy), GM Daewoo Auto and Technology co. (Korea), Harley Davidson Motor Co. (USA), Polaris Industries Inc (USA) and Piaggio (Italy).

During Q1 FY2018, the company acquired Mape Sweden AB (renamed as Sansera Sweden AB) which is engaged in manufacturing critical engine components for commercial vehicles, primarily Volvo in the European market. The total consideration paid out for the same was EUR 4.7 million and the same was funded by availing a loan of about Rs.40.0 crore from Citibank.

Key Financial Indicators of BNHL

	FY2016	**FY2017**
Operating income (Rs.Crore)	836.0	934.4
PAT (Rs.Crore)	71.8	71.6
OPBDIT/ OI (%)	17.5%	16.0%
RoCE (%)	19.2%	15.5%
Total Debt/ TNW (times)	0.7	0.6
Total Debt/ OPBDIT (times)	2.0	2.1
Interest coverage (times)	5.1	5.0
NWC/ OI (%)	27.6%	28.8%

Source: SEPL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

S.No	Name of Instrument	Current Rating FY2018			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-year & Rating in FY2017	Month- year & Rating in FY2016		Month-year & Rating in FY2015
				July 2017	December 2015	September 2014	June 2014	September 2013
1	Term Loans	Long Term	215.58	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Fund based facilities	Long Term	162.50	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Fund based facilities	Short Term	74.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Non-fund based facilities	Short Term	42.40	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Name of the instrument	Date of Issuance / Sanction	Coupon rate	Maturity	Size of the issue (Rs. crore)	Current Rating and Outlook
Term Loans	2015	-	By FY2022	215.58	[ICRA]AA- (Stable)
Fund based facilities	-	-	-	162.50	[ICRA]AA- (Stable)
Fund based facilities	-	-	-	74.00	[ICRA]A1+
Non-fund based facilities	-	-	-	42.40	[ICRA]A1+

Source: SEPL

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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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