Sansera Engineering Private Limited

July 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	329.50	329.50	[ICRA]AA- (Positive); reaffirmed, outlook revised from Stable
Term Loans	220.52	220.52	[ICRA]AA- (Positive); reaffirmed, outlook revised from Stable
Unallocated Limits	0.00	25.00	[ICRA]AA- (Positive)/[ICRA]A1+; reaffirmed, outlook revised from Stable
Non-fund-based limits	42.40	42.40	[ICRA]A1+; reaffirmed
Fund Based Limits	25.00	0.00	-
Total rated amount	**617.42**	**617.42**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced as ICRA double A minus) outstanding on the Rs. 329.50 crore long term fund based limits and Rs. 220.52 crore term loans of Sansera Engineering Private Limited (SEPL / the company)[2]. The outlook on the long-term rating has been revised to Positive from Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) outstanding on the Rs. 42.40 crore non-fund based facilities of SEPL. ICRA has also reaffirmed the long-term rating of [ICRA]AA- (pronounced as ICRA double A minus) and short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) outstanding on the Rs. 25.00 crore unallocated limits of SEPL.

Rationale

The revision in outlook on long term rating from Stable to Positive considers SEPL's above-industry organic revenue growth of 18.9% during FY2018[3] (13.0% during FY2017) supported by increase in wallet share with OEM customers in both its two-wheeler and four-wheeler segments and new businesses acquired. During FY2018, the company acquired an EU-based auto component manufacturer, Mape Sweden AB (now renamed as Sansera Sweden AB) which is engaged in manufacturing of automotive components (primarily connecting rods) to the HCV industry in Europe. The acquisition provided geographical and segmental diversification to its business profile in addition to enhancing the export revenue potential for the company. SEPL's investments towards building aerospace capacities for manufacturing components under seating, lighting and cargo category in addition to the recently commenced production of actuator systems are further expected to support the company's business prospects going forward. The ratings remain supported by the company's strong promoter background with over 35 years of expertise in the auto components industry and its consolidated financial profile characterized by healthy operating margin of 18.5% during FY2018, moderate gearing of

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[1] *100 lakh = 1 crore = 10 million*
[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*
[3] *FY2018 are provisional financials*

0.9x as on March 31, 2018 and interest coverage ratio of 5.7x during FY2018. ICRA notes that SEPL has plans for an initial public offering (IPO) of its shares primarily to provide exit to existing private equity investors, who currently hold 51.0% stake. While there is no incremental fund inflow in the company post IPO, it is expected to strengthen financial flexibility of the company.

The ratings are, however, constrained by SEPL's elevated debt levels on account of capital expenditure incurred towards the setting up of Bidadi plant (Bangalore) and the acquisition of Mape Sweden AB during FY2018 which has resulted in Total Debt/ OPBITDA of 2.1 times as on March 31, 2018. Sansera Sweden posted net losses during FY2018 on account of the extraordinary expense of Rs. 12.2 crore incurred towards relocation of its operations to a greenfield facility. The company has aggressive expansion plans for the next three years to meet the strong orderbook position from domestic customers in addition to the newly acquired customers in the export segment. This would remain a key credit monitorable considering the impact on debt protection metrics, which are currently higher than the medians of company's rating category and return on capital employed (ROCE) of the company. The rating strengths are also partially offset by the customer concentration risk with the top five customers contributing to ~64.2% of the revenues during FY2018 and the inherent cyclicality in the auto components industry. However, with new customer additions during FY2018, ICRA expects the concentration risk to reduce going forward.

Going forward, the company's ability to turn around Sansera Sweden's operations, improve consolidated margins during FY2019 supported by the strong orderbook position and improve its debt indicators amidst the ongoing capex programme will be key rating monitorables.

Outlook: Positive

ICRA's ratings consider the expected improvement in earnings and debt indicators led by strong orderbook of the company. The rating may be upgraded with healthy growth in profitability and debt indicators thus strengthening the overall financial risk profile of the company. Conversely, the outlook on the rating may be changed to Stable if lower than expected growth in accruals or higher than expected debt funded capex resulted in deterioration in debt indicators.

Key rating drivers

Credit strengths

- **Strong orderbook position:** SEPL is expected to witness healthy revenue growth on the back of strong order pipeline during FY2019 from domestic customers in addition to the newly acquired customers in the export segment.

- **Improvement in segmental and geographical diversification aided by acquisition of Mape Sweden AB during FY2018:** The company added AB Volvo to its customer base for the Europe region on the back of Mape Sweden AB acquisition during FY2018 and supplies connecting rods to the same. Consequently, the company has improved its segmental and geographical diversification with increasing revenue share from commercial vehicles (CV) segment and Europe region respectively. During FY2018, the company derived 67.2% of the revenues from the domestic market, while it derived 24.4% of its revenues from Europe (15.0% during FY2017).

- **Longstanding relationships with major OEMs aids long-term business stability:** The company has established relationships with major two-wheeler and four-wheeler OEMs in India and enjoys single source supplier status for certain components with the OEMs which in turn has supported the healthy revenue growth momentum of the company over the past few years.

- **Healthy revenue growth and earnings profile:** SEPL's financial profile is characterized by strong revenue growth of 33.4%, and healthy operating margin of 18.5% during FY2018. Capitalization indicators were however moderate with the gearing at 0.9x as on March 31, 2018.

- **Expected improvement in the financial flexibility of the company:** SEPL has plans for initial public offering (IPO) of its shares primarily to provide exit to its existing private equity investors – before the end of CY2018. While there is no incremental fund inflow in the company post IPO, it is expected to strengthen financial flexibility of the company by allowing company to tap capital market, if required.

- **Strong promoter background:** The company has a strong promoter background with the promoters having over 35 years of experience in the auto component industry.

Credit weaknesses

- **Elevated debt levels with impact on coverage indicators:** Owing to the debt-funded capital expenditure in the past coupled with debt funded acquisition of Mape Sweden AB during FY2018, the company's debt increased to Rs. 538.0 crore as on March 31, 2018 from Rs. 394.4 crore as on March 31, 2017 and Total Debt/OPBDITA stood at around 2.1x as on March 31, 2018. This is higher than the rating medians for the company's rating category.

- **Aggressive capex plans over the next two-three years**: The company has continued expansion plans over the next three years to meet SEPL's strong orderbook position. The timing of capex and extent of debt funding would remain a key remain credit monitorable for the company, considering the impact on debt protection metrics and return on capital employed (ROCE).

- **High customer concentration**: With the top five customers, namely Bajaj Auto Limited (20.9%), Honda Motorcycles and Scooters India Limited (13.1%), Volvo (10.5%), Maruti Suzuki India Limited (10.1%) and Fiat Powertrain (9.6%) contributing to ~64.2% of the revenues during FY2018, the concentration risk is high. With new customer additions during FY2018, the concentration risk is expected to reduce going forward.

- **Net loss of Sansera Sweden on account of relocation of its operations**: Sansera Sweden reported net loss on account of an extraordinary expense of Rs. 12.2 crore incurred for relocating to a greenfield facility which has been funded through debt. However, post the stabilization of operations in the facility from April 2019 onwards coupled with the addition of new customers, its margins are expected to improve and would be a key credit monitorable**.**

- **Exposure to cyclicality in the automotive industry:** SEPL derives 47.8% and 26.6% of its revenues from two-wheeler and four-wheeler segments respectively and is thus exposed to the cyclicality inherent in the automotive industry. While the prospects are favourable over the near term for both the segments, the demand remains exposed to the inherent cyclicality thus impacting sustained growth for the company.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of the company and its subsidiaries i.e. Fitwel forgings and Tools Pvt Ltd (Fitwel) and Sansera Sweden AB. ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
[Corporate Credit Rating methodology]
[ICRA's Rating methodology for Auto components industry]

About the company:

SEPL, head quartered in Bangalore, is primarily engaged in the machining of precision engine forged components for both four-wheeler and two- wheeler segments. The company also manufactures connecting rods for the large and heavy commercial vehicles. SEPL had also recently forayed into manufacturing of aerospace components. With negligible spare sales, SEPL primarily caters to OEMs such as Bajaj Auto Limited (BAL), Honda Motorcycles and Scooters India Limited (HMSI), Maruti Suzuki India Limited (MSIL), Honda Cars India Limited, India Yamaha Motors Pvt Ltd and Royal Enfield. 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). SEPL has 16 manufacturing plants with 15 located in India and one in Sweden. The company also has an engineering, design and development center employing software professionals facilitating in-house design and development of machine tools used for the manufacture of auto components. SEPL manufactures CNC and non-CNC machine tools for in-house consumption which helps the company control costs while ensuring quality. Further, SEPL also has a heat treatment facility and a metallurgical lab.

During 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 through bank loans. During FY2018, Gearrock Forge Private Limited, a wholly-owned subsidiary of SEPL was merged with SEPL.

Key Financial Indicators

	FY2017	FY2018*
Operating Income (Rs. crore)	1,018.4	1,358.1
PAT (Rs. crore)	63.0	90.2
OPBDIT/ OI (%)	16.6%	18.5%
RoCE (%)	15.7%	19.2%
Total Debt/ TNW (times)	0.8	0.9
Total Debt/ OPBDIT (times)	2.3	2.1
Interest coverage (times)	5.1	5.7

Source: company; Note: FY2018 are provisional financials

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) as on 31st March, 2018	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2016	Date & Rating in FY2015	
					Jul-18	Jul-17	Jul-17	Jan-16	Sep-14	Jul-14
1	Fund based facilities	Long Term	329.50	158.71	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Term Loans	Long Term	220.52	211.62	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-fund based facilities	Short Term	42.40	21.30	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long Term/Short Term	25.00	0.00	[ICRA]AA- (Positive)/ [ICRA]A1+	-	-	-	-	-
5	Fund based facilities	Short Term	0.00	0.00	-	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2015	-	By FY2022	220.52	**[ICRA]AA- (Positive)**
NA	Fund Based facilities		-		329.50	**[ICRA]AA- (Positive)**
NA	Non fund based facilities		-		42.40	**[ICRA]A1+**
NA	Unallocated limits	FY2015	-		25.00	**[ICRA]AA- (Positive)/[ICRA]A1+**

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

William Charles
+91 80 4332 6411
william.charles@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999