August 23, 2019

Sansera Engineering Limited: Ratings reaffirmed; Outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/CC	329.50	-	-[1]
Fund-based Term Loan	220.52	298.08	[ICRA]AA- (Stable); reaffirmed, outlook revised from Positive
Fund-based Facilities	0.00	354.50	[ICRA]A1+; reaffirmed
Non-fund Based Facilities	42.40	42.40	[ICRA]A1+; reaffirmed
Unallocated	25.00	2.44	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed, outlook revised from Positive
Total	**617.42**	**697.42**	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook factors in the demand weakness witnessed across the Indian four-wheeler (4W) and two-wheeler (2W) industries over the past 12 months. Consequent to which, Sansera Engineering Limited's (Sansera / the company) revenue growth has moderated since H2FY2019. Given the muted demand outlook in the industry, revenue growth during FY2020 is also likely to be relatively weaker than expected, although increased content per vehicle and wallet share gains are expected to support the company's revenues during FY2020; Sansera is expected to report industry plus revenue growth during FY2020. Debt levels in FY2019 were elevated due to preponement of capital expenditure driven by customer demand. The company spend Rs. 254.5 crore in capital expenditure during FY2019. Consequently, Total Debt/OPBDITA stood at 2.1 times as on March 31, 2019. The company's consolidated operating margins also deteriorated to 17.8% during FY2019 from 18.5% during FY2018 due to increase in raw material costs and decline in performance of one of its subsidiary, Fitwel Tools and Forging Private Limited, change in product mix and increase in fixed costs necessary to run the Bidadi facility.

The assigned ratings favourably factors in the extensive experience of the promoters spanning over 30 years in the auto component industry and established position of the company as a manufacturer of components in the domestic automotive market. The ratings also factor in Sansera's improved segmental and geographical diversification aided by acquisition of Sansera Sweden AB (Sansera Sweden) in FY2018. Further, the company's investments towards building aerospace capacities for manufacturing components under seating, lighting and cargo category in addition to production of actuator systems has supported the company's business prospects as the segment witnessed strong revenue growth of ~55.1% in FY2019. Further, Sansera has consistently recorded healthy revenue growth over the last three years (CAGR of ~16% between FY2016 and FY2019), driven by new customer addition in addition to wallet share gains. The company's consolidated financial profile during FY2019 is characterized by healthy revenue growth of 19.6%, operating margin of 17.8%, moderate gearing of 0.9 times as on March 31, 2019 and interest cover of 5.7 times in FY2019.

[1] Long Term Fund-based/CC of Rs. 329.50 crore rated during the previous rating exercise is now moved to Short Term – Fund-based.

However, the ratings are constrained by the company's elevated debt levels on account of preponement of part FY2020 capex in FY2019. The company has sizeable capex plans of ~Rs. 450 crore for the next three years to meet the orderbook position. This would remain a key credit monitorable considering the impact on debt protection metrics, which are currently higher than the medians for the rating category. Further, Sansera Sweden posted net losses in FY2019 on account of the extraordinary expense of Rs. 15.7 crore incurred towards relocation of its operations to a greenfield facility. The rating strengths are also partially offset by the customer concentration risk with the top five customers contributing to ~62.2% of the revenues in FY2019 and the inherent cyclicality in the auto components industry. However, with new customer additions and improved wallet share from existing customers in FY2019, ICRA expects the concentration risk to reduce going forward.

Going forward, Sansera's ability to add wallet share and grow in a bearish industry, improve its debt indicators amidst the ongoing capex programme and the company's ability to turn around Sansera Sweden's operations will be key rating monitorables.

Outlook: Stable

ICRA believes Sansera will continue to benefit from the strong promoter profile, established customer relationships and enhanced manufacturing facilities. However, the near-term revenue growth prospects are muted on account of the moderation being witnessed in PV and 2W industries. The outlook may be revised to Positive if substantial growth in revenue and profitability, better working capital management, and improvement in debt metrics strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure weakens the credit metrics or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Strong promoter background – The company has a strong promoter background with the promoters having over 30 years of experience in the auto component industry.

Long-term relationship with key customers - The company has established relationships with major two-wheeler and four-wheeler OEMs in India and enjoys single source supplier status for certain components, which in turn has supported the healthy revenue growth momentum of the company over the past few years. Sansera also improved its wallet share and increased its content per vehicle with major key OEMs in FY2019.

Improvement in segmental and geographic diversification aided by Sansera Sweden's operations and Aerospace business – Sansera added AB Volvo to its customer base for the European region with the aquisition of Mape Sweden AB (renamed as Sansera Sweden AB) during FY2018 and has been supplying 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. Further, the company's investments towards building aerospace capacities for manufacturing components under seating, lighting and cargo category in addition to production of actuator systems has provided support to its business prospects as the segment witnessed strong revenue growth of ~55.1% in FY2019. During FY2019, the company derived ~66.3% of its revenues from the domestic market (~17.0% value growth from FY2018), and ~24.3% of its revenues from Europe (~18.1% value growth from FY2018).

Healthy profitability, despite the recent moderation – As per consolidated provisional FY2019 results, Sansera's revenues registered a healthy revenue growth of ~19.6% in FY2019 supported by growth across two-wheeler, aerospace and off-road segments. The company's operating margins declined by 70 bps to 17.8% in FY2019 from 18.5% in FY2018 primarily on the back of increase in raw material costs and change in product mix. Further, net profit margins declined by 50 bps to 6.1% in FY2019 from 6.6% in FY2018 on account of increase in the interest expenses towards the debt-funded capex and extraordinary loss incurred in the Sansera Sweden's relocation project. Going forward, with improvement in business share with major OEMs, and addition of margin accretive products to its portfolio, the overall financial profile of the company is likely to remain comfortable with moderate revenue growth, margins and stable cash flows.

Credit challenges

Elevated debt levels impacting capitalization and coverage indicators – Owing to the debt-funded capex in the past coupled with preponement of part of FY2020 capex to FY2019, the company's total debt increased to Rs. 610.2 crore as on March 31, 2019 from Rs. 539.4 crore as on March 31, 2018. The company's Total Debt/OPBDITA, Interest cover and gearing stood at 2.1x, 5.7x and 0.9x respectively in FY2019. Going forward, with revenue growth and higher internal accruals, capitalization and coverage indicators are likely to improve.

Sizeable capex plans of ~Rs. 450 crore over next two-three years to support Sansera's orderbook position – The company has sizeable expansion plans of ~Rs. 450 crore over the next three years to meet its 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 risk- With the top five customers, namely have they been Bajaj Auto Limited (~22.5%), Honda Motorcycles and Scooters India Limited (~12.2%), Volvo (~10.3%), Maruti Suzuki India Limited (~9.1%) and Fiat (~8.2%) contributing to ~62.2% of the revenues in FY2019, customer concentration risk remains high, although it has reduced in comparison to ~64.2% in FY2018. With new customer additions in FY2019 and improved share of business from other major OEMs, the concentration risk is expected to reduce going forward.

Loss-making subsidiary in Sweden; expected to turn profitable in FY2020 – Sansera Sweden reported net loss in FY2019 and FY2018 on account of an extraordinary expense of Rs. 15.7 crore and 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, coupled with the addition of new customers, its margins are expected to improve going forward and would be a key credit monitorable.

Exposed to cyclicality in the automotive industry – Sansera derived ~74% of its revenues from the two-wheeler and four-wheeler segments exposing the revenues to cyclicality in demand from these segments. Automotive growth had slowed down for both the domestic two-wheeler and four-wheeler segment on account of bearish customer sentiments, inventory correction by OEMs and softening rural demand for two-wheeler. However, the healthy new business addition in aerospace segment is likely to support Sansera's revenues over the medium term.

Liquidity Position:

Sansera's liquidity has remained adequate with cash and liquid investments at Rs. 31.6 crore as on March 31, 2019 and average fund based working capital utilisation of 82.1% of sanctioned limits for the period April'18 – June'19, despite significant cash outflow on account of capex and Sansera Sweden's relocation project. In addition to the sanctioned fund based working capital limits of Rs. 354.5 crore, the company had outstanding term debt of Rs. 306.0 crore as on March

31, 2019 with repayment obligation of ~Rs. 176.0 crore over the two-year period in FY2020 - 21. Going forward, ICRA expects Sansera's liquidity position to remain adequate in line with existing levels.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto component manufacturers
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on consolidated financial statements of the issuer.

About the company

Sansera, head quartered in Bengaluru, is primarily engaged in machining of precision engine forged components for 4W, 2W and components of Aerospace industry. The company also manufactures connecting rods for medium and heavy commercial vehicles (M&HCV). Sansera had also recently forayed into manufacturing of steering and Aluminium Forged Products. With negligible spare demand for its products, Sansera primarily caters to OEMs such as Bajaj Auto Limited, Honda Motorcycles and Scooters India Limited, Maruti Suzuki India Limited, Honda Cars India Limited, India Yamaha Motors Private Limited and Royal Enfield.

The company also exports components to reputed global OEMs such as Ducati Motor Holding S.P.A (Italy), Fiat Powertrain (Italy), GM Daewoo Auto and Technology co. (Korea), Harley Davidson Motor Co. (USA), Polaris Industries Inc (USA) and Piaggio (Italy). Sansera 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. Sansera manufactures CNC and non-CNC machine tools for in-house consumption which helps the company control costs while ensuring quality. Further, Sansera 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 Sansera was merged with Sansera.

Key financial indicators

	FY2018	FY2019*
Operating Income (Rs. crore)	1,358.1	1,624.4
PAT (Rs. crore)	90.2	99.3
OPBDIT/OI (%)	18.5%	17.8%
RoCE (%)	19.2%	18.2%
Total Debt/TNW (times)	0.9	0.9
Total Debt/OPBDIT (times)	2.1	2.1
Interest coverage (times)	5.7	5.7

*Source: Company; Note: * FY2019 are provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
				Amount Outstanding (Rs. crore) as on March 31, 2019	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2016
	Instrument	**Type**	**Amount Rated (Rs. crore)**		**Aug 2019**	**Jul 2018**	**Jul 2017**	**Jan 2016**
1	Fund-based/CC	Long Term	-	-	-	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund-based Term Loan	Long Term	298.08	**306.00**	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Fund-based Facilities	Short Term	354.50	**283.30**	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
4	Non-fund Based Facilities	Short Term	42.40	**20.90**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long Term/ Short term	2.44	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [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 Loan 1	-	-	-	38.80	[ICRA]AA- (Stable)
NA	Term Loan 2	-	-	-	99.26	[ICRA]AA- (Stable)
NA	Term Loan 3	-	-	-	38.69	[ICRA]AA- (Stable)
NA	Term Loan 4	-	-	-	53.33	[ICRA]AA- (Stable)
NA	Term Loan 5	-	-	-	30.00	[ICRA]AA- (Stable)
NA	Term Loan 6	-	-	-	38.00	[ICRA]AA- (Stable)
NA	Fund-based Facilities	-	-	-	354.50	[ICRA]A1+
NA	Non-fund Based Facilities	-	-	-	42.40	[ICRA]A1+
NA	Unallocated	-	-	-	2.44	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sansera Sweden AB	100.00%	Full Consolidation
Sansera Engineering Private Limited, Mauritius	100.00%	Full Consolidation
Fitwel Tools and Forgings Private Limited	70.00%	Full Consolidation

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