November 27, 2020

Sansera Engineering Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	298.08	360.46	[ICRA]AA- (Stable); Reaffirmed
Fund Based – Working Capital Facilities	354.50	369.50	[ICRA]A1+; Reaffirmed
Non-fund Based Working Capital Facilities	42.40	42.40	[ICRA]A1+; Reaffirmed
Unallocated	2.44	52.64	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Total	**697.42**	**825.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings considers the established position of Sansera Engineering Limited (Sansera) as a manufacturer of precision forged and machined components catering primarily to two-wheelers (2Ws) and four-wheelers (4Ws), which accounted for 73.8% of revenues in FY2020. The ratings reaffirmation also considers the promoters' experience of over 30 years and favourably factors in the increasing share of businesses with the existing customers and addition of new customers, which are likely to support revenues in FY2021. On a consolidated basis, Sansera witnessed a revenue de-growth of 10.3% to Rs. 1,457.2 crore in FY2020 on account of the overall slowdown in the automotive demand coupled with Covid-19 induced lockdown impacting operations in March 2020. The revenues stood at Rs. 580.5 crore during H1 FY2021, down 24.1% YoY, primarily owing to the Covid-19 induced lockdown impacting operations in Q1 FY2021. However, in Q2 FY2021, the company has witnessed its highest quarterly sales of ~Rs. 439 crore (consolidated) on the back of improving wallet share with the existing customers and addition of new customers.

The rating strengths are partially offset by customer-concentration risk with the top five clients contributing 60.5% to the revenues in FY2020 and the inherent cyclicality in the auto components industry. However, ICRA expects the concentration risk to reduce going forward, with new customer additions and improved wallet share from the existing customers in FY2021.The company's debt levels have increased over the past three years with sizeable capex carried out in FY2018–FY2020 with TD/OPBDITA at 2.8x as on March 31, 2020 (2.1x as on March 31, 2019) and interest coverage at 3.8x in FY2020 (5.7x in FY2019). The company's debt protection metrics are currently higher than the medians for the rating category and remains a key monitorable.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that Sansera will continue to benefit from its strong promoter profile, established customer relationships and enhanced capacity utilisation in the recent months. ICRA has a Negative outlook on the domestic automotive industry in FY2021 with double-digit growth decline in passenger vehicle (PV) and 2W segments. However, Sansera's ability to add new businesses from the existing and new customers is likely to support its operations going forward.

Key rating drivers and their description

Credit strengths

Long-term relationships with major OEMs with heathy wallet share aids business stability – Sansera has established relationships with major 2W and 4W OEMs in India for supply of auto components such as connecting rod, rocker arm, crank shaft assembly, gear shifter fork, etc. and enjoys single source supplier status for certain components. This, in turn, has supported the company's healthy revenue growth momentum over the past few years. Sansera also improved its wallet share and increased its content per vehicle with key OEMs and has also added reputed OEMs to its customer profile in H1 FY2021.

New business from existing and new customers to aid revenues in FY2021 – During H1 FY2021, Sansera's consolidated revenues stood at Rs. 580.5 crore, down 24.1% YoY, primarily owing to the Covid-19-induced lockdown impacting operations in Q1 FY2021. However, the company has witnessed steady improvement in its businesses over the last few months with the company clocking its highest ever quarterly revenues (~Rs. 439 crore) in Q2 FY2021. This was primarily on the back of new businesses won from the existing and new customers during H1 FY2021 and addition of new components to its portfolio, which in turn is likely to drive healthy revenues going forward. Additionally, during Q2 FY2021, the company's operating profit margin improved to 22.3% aided by healthy benefits of operating leverage (increasing scale of operations), supply of margin accretive BS-VI products, lower discretionary spends and cost-rationalisation measures. While margins are expected to moderate in H2 FY2021 (from the Q2 levels), continued demand could support higher margins in FY2021.

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

Credit challenges

Elevated debt levels due to debt-funded capex impacting coverage indicators – Owing to the debt-funded capex in the past and the ongoing capex programme and increased working capital utilisation, the company's total debt increased to Rs. 596.8 crore as on March 31, 2020 from Rs. 546.6 crore as on March 31, 2019. Its total debt/OPBDITA and gearing stood at 2.8x and 0.8x, respectively, as on March 31, 2020 and interest cover was 3.9x in FY2020. The total debt level was at Rs. 581.0 crore as on September 30, 2020. Although the company has moderate capex requirements, capitalisation and coverage indicators are likely to improve with healthy operating accruals going forward.

High customer-concentration risk – With the top five customers, Bajaj Auto Limited (22.1%), Honda Motorcycle and Scooter India Limited (13.8%), Volvo (9.5%), Maruti Suzuki India Limited (9.3%), aerospace (5.9%) contributing to 60.5% of the revenues in FY2020, the customer-concentration risk remains high. With new customer additions in FY2021 and improved share of business from the existing customers, the concentration risk is expected to reduce going forward.

Exposed to cyclicality in automotive industry – Sansera derived 73.8% of its FY2020 revenues from the 2W and 4W segments, exposing the revenues to cyclicality in demand from these segments. During the current fiscal, automotive demand growth had slowed down for all the segments due to the significant disruption in demand. However, increasing share of business with the existing customers coupled with addition of new businesses across segments is likely to provide comfort to a certain extent.

Liquidity position: Adequate

Sansera's liquidity position is **adequate** with healthy fund flow from operations in FY2020 and sizeable cash balances and liquid investments of Rs. 81.0 crore as on September 30, 2020. Its average working capital utilisation was 80.8% of the sanctioned limits between September 2019 and September 2020 with an available working capital buffer of Rs. 113.5 crore as on September 30, 2020 (against sanctioned limits of Rs. 359.5 crore). The company has repayment obligations of Rs. 99.0 crore in FY2021, Rs. 113.6 crore in FY2022 and Rs. 88.7 crore in FY2023. Sansera did not avail the moratorium which was announced as part of Covid-19 regulatory package announced by the RBI. Despite the moderate capex, incremental borrowings and high repayment obligation requirements, ICRA expects Sansera's liquidity position to remain adequate over the medium term on the back of healthy accruals and the existing cash balances and liquid investments.

Rating sensitivities

Positive triggers – An upward movement in the ratings could happen with sustained growth in its revenues coupled with notable improvement in the debt metrics and ROCE on a sustained basis.

Negative triggers – Pressure on Sansera's ratings could arise from lower-than-anticipated revenues on account of persistent slowdown in the industry demand, or if further deterioration in profit margins leads to an adverse impact on the debt coverage indicators. The pressure on the ratings could also arise from weakening of credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto component suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity

About the company

Sansera, head quartered in Bengaluru, is primarily engaged in machining of precision engine forged components for 4W, 2W and components of the 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, the company primarily caters to OEMs such as Bajaj Auto Limited, Honda Motorcycle and Scooter India Limited, Maruti Suzuki India Limited, Honda Cars India Limited, India Yamaha Motor Private Limited and Royal Enfield.

Sansera 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, including 15 in India and one in Sweden. It also has an engineering, design and development centre that employs software professionals for the in-house designing and development of machine tools used for the manufacture of auto components. The company manufactures CNC and non-CNC machine tools for in-house consumption, which helps in controlling costs while ensuring quality. Sansera has a dedicated machine building facility where Sansera manufactures its own special purpose machines. Further, Sansera has a heat treatment facility and a metallurgical lab.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	1,624.4	1,457.2
PAT (Rs. crore)	99.3	80.6
OPBDIT/OI (%)	17.8%	15.8%
PAT/OI (%)	6.1%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.3
Total Debt/OPBDIT (times)	2.1	2.8
Interest Coverage (times)	5.7	3.8

*Source: Company financials; Note: * Unaudited financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current rating	FY2020	FY2019	FY2018
				30-Sep-2020	27-Nov-2020	23-Aug-2019	20-Jul-2018	18-Jul-2017
1	Term Loan	Long Term	360.46	322.75	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
2	Fund Based	Short Term	369.50	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
3	Non-fund Based	Short Term	42.40	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Long Term/ Short Term	52.64	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2015 – FY2021	1.90% - 9.85%	FY2021 - FY2026	360.46	[ICRA]AA- (Stable)
NA	Fund-based Facilities	FY2020	-	-	369.50	[ICRA]A1+
NA	Non-fund Based Facilities	FY2020	-	-	42.40	[ICRA]A1+
NA	Unallocated	NA	NA	NA	52.64	[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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About ICRA Limited:

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