

May 27, 2022

Savera India Riding Systems Company Private Limited: Long-term rating upgraded and short-term rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------------------|-----------------------------------|----------------------------------|---|
| Fund-based – Cash Credit | 10.00 | 10.00 | [ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable) |
| Short-Term – Bill Discounting | 2.00 | 0.00 | - |
| Short-Term – Letter of Credit | 2.00 | 0.00 | - |
| Long-Term Unallocated | 1.00 | 0.00 | - |
| Long-Term/Short-Term – Unallocated | 0.00 | 5.00 | [ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)/ [ICRA]A4; reaffirmed |
| Total | 15.00 | 15.00 | |

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in Savera India Riding Systems Company Private Limited's (SRPL) increasing scale of operations, driven by improved sales volumes as well as realisations and favourable growth prospects with recovery witnessed in real estate demand. Further, the company is expected to ramp up its operations going forward on the back of healthy order inflow supported by capacity expansion. The company also reported improved operating profits, benefitting from growing scale as well as change in sourcing pattern, which allowed the strengthening of the net worth position, resulting in an improved capital structure. The rating continues to draw comfort from the established track record of the promoters in the manufacturing elevator guide-rails and allied products and its association with well-established elevator-manufacturing companies. ICRA also takes comfort from the support from the holding company Perfiles Especiales S.L. (PESEL) (part of the Spain-based Savera Group), in the form of technology transfer as well as financial assistance through equity infusion and ECB extended in FY2019.

The ratings, however, are constrained by the modest scale of operations and operating profit margin, albeit showing an improving trend. The ratings continue to factor in the customer concentration risk with top five customers accounting for 85-90% of the total sales, constraining profitability due to the limited bargaining power on dealing with large and established players. The ratings further factor in the exposure to cyclicalities, associated with real estate and the steel sector, the susceptibility of its profitability margins to competition from low-cost Chinese products, especially rail guide and the adverse fluctuation in raw material prices.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that SRPL will continue to maintain its revenue and profitability, supported by its association with well-established elevator-manufacturing companies.

Key rating drivers and their description

Credit strengths

Extensive experience and support from the promoter Group - Incorporated in March 2005 by the Spain-based Savera Group and its Indian promoters - Mr. Vinay Kothari and Mr. Girish Jain, SRPL enjoys financial as well as operational support in the

form of technology transfer from Perfiles Especiales Selak S.L. (PESL) - the holding company (part of the Spain-based Savera Group).

Reputed clientele base - The company's clientele includes reputed names such as Schindler India Pvt. Ltd., Otis Elevator Company Pvt Ltd, Mitsubishi Elevator India Private Limited etc. which ensures repeat orders from such clients. With the recovery in the end user real estate segment for these players, the demand prospects remain favourable for the elevator manufacturers and thus, for SRPL.

Comfortable capital structure and coverage indicators- The company's capital structure has improved over the years with improvement in net worth base to Rs. 24.9 crore as on March 31, 2022 from Rs. 14.9 crore as on March 31, 2020 and limited debt requirements. The operating profits grew in FY2022 on account of its increased scale of operations as well as change in sourcing pattern, translating in strengthening of its net worth position, thereby improving the capital structure. The gearing of the company stood at 0.4 times as on March 31, 2022 (P.Y. 0.7 times as on March 31, 2021). The coverage indicators remained comfortable, given its low debt and marginal interest outgo, with interest coverage of 17.0 times and TD/OPBDITA of 1.0 times as on March 31, 2022. Going forward, the capital structure and coverage indicators are expected to remain comfortable with limited debt requirements.

Credit challenges

Range-bound scale of operations and modest operating margin profile - The company's operating income had remained in the range of Rs. 70-100 crore for the last five years till FY2021 mainly because the order inflow depends on the cyclicity associated with real estate and the steel sector. The company logged a revenue of Rs. 137.1 crore in FY2022 which remained better compared to the previous fiscals, though remaining modest. Nevertheless, the company is expected to ramp up its operations in the current fiscal due to healthy order inflow as well as increasing the capacity. The company has a modest operating margin profile in the range of 6-8% due to high volatility in raw material prices.

Limited bargaining power with well-established elevator-manufacturing companies - The company has established linkages with reputed elevator companies and has received repeat orders. However, the high customer concentration with top five customers accounting for 85-90% of the total sales, limits SRPL's bargaining power, thereby constraining the profitability.

Exposure to cyclicity associated with real estate and steel sector - Rail guides manufactured by SRPL are used by elevator companies whose demand is directly correlated to the construction and the real estate sectors, making the company's revenue vulnerable to the cyclicity in the real estate industry. The sales realisation also depends on the price of raw material that is T-sections made of scrap and sponge iron. Although the prices generally move in tandem, there could be short-term mismatches in the raw material and the end-product prices, which are linked to the commoditised steel prices leading to volatility in margins. ICRA believes that the future pace of revenue growth will remain contingent to these sectors and will remain a key rating monitorable.

Intense competition from low-cost Chinese products - The company faces intense competition from low-cost Chinese manufacturers. However, due to its superior quality products and an established clientele, SRPL has managed to secure its position in the market.

Liquidity position: Stretched

SRPL's liquidity is stretched notwithstanding Rs. 5.8 crore cash and bank balance (as of March 31, 2022) on the back of limited cushion available in the form of undrawn working capital limits and proposed capacity expansion plan. The long-term debt repayment obligations are modest (Rs. 0.73 crore) for FY2023, which can be met from its cash accruals.

Rating sensitivities

Positive factors – ICRA is likely to upgrade SRPL's rating if there is consistent revenue growth while improving profitability indicators, coupled with improved liquidity position along with improvement in the tangible net worth on a sustained basis.

Negative factors – The ratings may be downgraded if there is more than anticipated decline in sales and profitability weakening the liquidity profile and key credit matrix.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the standalone financials of SRPL. |

About the company

Incorporated in March 2005, SRPL commenced commercial operations in May 2007. It is a joint venture between its Indian promoters (Mr. Vinay Kothari and Mr. Girish Jain) and the Spain-based Savera Group (through its wholly-owned subsidiary Perfiles Especiales Selak S.L.). The Spanish company increased its stake in SRPL from 46% to 54% in FY2019, with infusion of Rs. 2.2 crore as equity.

SRPL manufactures elevator guide rails, an essential part of most elevator and lift shafts. The manufacturing activities are carried out at a facility in Talaja MIDC in the Raigad District of Maharashtra. The company also utilises the Kancheepuram (Tamil Nadu) plant of its sister concern Savera Kothari India Private Limited (SKIPL) and pays processing charges for using its facilities. The company has an aggregate installed capacity of 26,000 metric tonnes per annum (MTPA) which the company is expanding to 40,000 MTPA.

Key financial indicators

| | FY2021 | FY2022* |
|--|--------|---------|
| Operating Income (Rs. crore) | 76.2 | 137.1 |
| PAT (Rs. crore) | 2.6 | 7.4 |
| OPBDIT/OI (%) | 5.9% | 7.9% |
| PAT/OI (%) | 3.5% | 5.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.2 | 0.9 |
| Total Debt/OPBDIT (times) | 2.8 | 1.0 |
| Interest Coverage (times) | 4.7 | 17.0 |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2023) | | | Chronology of Rating History for the past 3 years | | | | |
|---|------------------|-------------------------|--------------------------|---|---|------------------|-------------------|-------------------------|--|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on Mar 31, 2022 (Rs. crore) | Date & Rating on | Date & Rating on | Date & Rating on | Date & Rating in FY2020 | |
| | | | | | May 27, 2022 | FY2022 | Feb 26, 2021 | Jan 23, 2020 | Jul 30, 2019 |
| 1 | Cash Credit | Long Term | 10.00 | - | [ICRA]BB (Stable) | - | [ICRA]BB-(Stable) | [ICRA]BB-(Stable) | [ICRA]B+(Stable); ISSUER NOT COOPERATING |
| 2 | Bill Discounting | Short Term | 0.00 | - | - | - | [ICRA]A4 | [ICRA]A4 | - |
| 3 | Letter of Credit | Short Term | 0.00 | - | - | - | [ICRA]A4 | [ICRA]A4 | - |
| 4 | Unallocated | Long Term | 0.00 | - | - | - | [ICRA]BB-(Stable) | [ICRA]BB-(Stable) | [ICRA]B+(Stable); ISSUER NOT COOPERATING |
| 5 | Unallocated | Long-Term/Short-Term | 5.00 | - | [ICRA]BB (Stable)/[ICRA]A4 | - | - | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|-------------|----------------------|
| Cash Credit | Simple |
| Unallocated | NA |

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 analysing 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: 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 | Cash Credit | NA | NA | NA | 10.00 | [ICRA]BB (Stable) |
| NA | Unallocated | NA | NA | NA | 5.00 | [ICRA]BB (Stable)/[ICRA]A4 |

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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