January 24, 2023

# Suttatti Enterprises Private Limited: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long term fund-based – Pre/post shipment credit (working capital facilities) | 18.00 | 18.00 | [ICRA]A- (Stable); reaffirmed |
| Long term fund-based – Term loan | 2.12 | - | - |
| **Total** | **20.12** | **18.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating action factors in the established relations of Suttatti Enterprises Private Limited (SEPL) with reputed clients and a healthy share of business in the products supplied. The rating draws comfort from a healthy growth in revenues and operating profits, while maintaining comfortable credit profile and liquidity. The rating also factors in SEPL's healthy financial risk profile, marked by a comfortable capital structure and adequate coverage indicators; the company had sufficient liquid investments in FY2022 and H1 FY2023 owing to a steady cash flow from operations despite a sizeable payout of Rs. 18.4 crore on account of share buyback in FY2022.

ICRA also notes that the export-oriented unit (EOU) that accounted for sizeable portion of the revenues and the operating profit in FY2022 has been the key revenue and profit driver for the company in the recent past. The near-term growth outlook for this business appears muted amid some moderation in offtake from Q2 FY2023 on account of the supply chain issues faced by customers and the recessionary conditions expected in the European market.

Despite the moderation in revenues and offtake, SEPL reported a healthy operating margin in H1 FY2023 and comfortable credit profile. Further, the rating considers the long-standing experience of the company's promoters in the sheet metal fabrication industry, its established relations with reputed clients in the automobile and engineering segments in India and abroad along with a healthy share in the client's business for the products supplied. The company has also set up a new unit for capturing markets in the defence segment, domestic as well as international, thus aiding revenue growth for the business over medium term.

The rating is, however, constrained by the modest scale of operations in each of the business segments, exposing the business to sector-specific slowdown risks. SEPL is also exposed to significant client concentration risk as ~67% of the total revenue came from the top three customers in H1 FY2023. The operations further remain exposed to the inherent cyclicality in the engineering and construction equipment segments, wherein any moderation in infrastructure and industrial capex can weaken its prospects. Further, SEPL's operations have remained working capital intensive due to the elongated receivables, which along with the regular capex incurred in the last few years, have constrained its free cash flow position. However, a healthy cash flow from operations and sufficient liquid investments provide adequate support to liquidity.

Further, the challenging global economic conditions have led to a moderation in demand on account of supply chain issues faced by customers, resulting in lower offtakes and adversely impacting the revenues in the near term. The commercialisation of the new unit will expand the revenue base, resulting in healthy revenue visibility for the medium term.

The Stable outlook on SEPL's rating reflects ICRA's opinion that the company shall continue to benefit from the strong customer relations that would scale up in the existing product lines. Moreover, the product development initiatives focusing on the defence segment would bring in new customers.

## Key rating drivers and their description

### Credit strengths

**Established relationship with reputed clients -** The company has an established relationship with reputed players in the auto and construction equipment segments and a healthy share of business in the products supplied. Further, the commercialisation of a new unit for domestic and international defence supplies with orders from large international players is expected to drive revenue growth over the medium term, while offering sufficient revenue visibility to the company.

**Steady revenues and profits from EOU enable geographic diversification of revenues and support profitability –** The company's export-oriented unit (EOU) has been able to generate steady revenues with comfortable profits over the past few years. SEPLs' ability to meet the specific product requirements of its clients while maintaining high-quality standards has led to high operational margins from the division. This has also assisted the company in diversifying its revenues across countries such as the US, the UK, Hong Kong and India. Although the profitability from the sheet metal division remains modest, comfortable profits from the EOU support the company's overall profitability.

**Comfortable capital structure and coverage metrics with strong liquidity position -** SEPL's capital structure has remained comfortable with a gearing of 0.4 times as on March 31, 2022, given the continuous accretion to reserves and the modest debt levels. The company's coverage indicators remained healthy with interest coverage at 20.7 times and moderate net cash accruals to total debt ratio of 16.5% as on March 31, 2022, post the sizeable cash flows during the year on account of share buyback, funded by the company through its internal accruals.

Further, its liquidity position is healthy, with comfortable free cash and bank balances, coupled with liquid investments of Rs. 34.7 crore and undrawn working capital limits of Rs. 16.2 crore as on September 30, 2022. SEPL is expected to generate stable cash flows in the coming years with a scale-up in its sheet metals division. Although it has incurred a moderate level of debt-funded capex in the previous fiscal, the expected stable profit and improved accruals post the sale of the loss-making unit is likely to keep the company's incremental reliance on debt under check and its capitalisation and coverage metrics are likely to improve.

### Credit challenges

**Working capital-intensive operations due to extended receivables cycle –** SEPL's working capital intensity remains moderate at 36.2% for FY2022, post resumption of operational normalcy, leading to lower inventory holding and receivables position. However, ICRA takes note of the extended receivables cycle from some major clients which continues to exert pressure on its working capital profile. Further, the company's debtor position, as on March 31, 2022, is over 45% of the receivables outstanding for more than six months, though there are no major debtors from whom a large amount is recoverable and the amount of receivables is spread over various clients. However, given the reputed clientele, the counterparty credit risk is limited. The company's comfortable liquidity position continues to safeguard its limited dependence on external working capital borrowings despite the high inventory levels and receivables position.

**Client concentration risk –** SEPL's key clients contributed to more than half of its total sales in FY2022 and H1 FY2023, exhibiting high client concentration risk. However, its healthy share of business in certain products manufactured for these clients and the long-term relationship with them mitigate the risk to an extent.

**Modest scale of operations in each business segment –** SEPL's overall scale of operations remains moderate with revenues of Rs. 171.1 crore in FY2022. The company largely operates two business divisions – sheet metal and EOU. The moderate scale of operations in each of these business segments amplifies its exposure to the inherent cyclicality in the engineering and automobile segments. However, SEPL's presence across the two business verticals provides it with some cushion against sector-specific slowdown risks.

**Muted demand due to global economic conditions and supply chain disruptions –** Direct exports have contributed to 30-40% of SEPL's sales over the past few fiscals, with a large part of these exports being made to one large customer in USA and other customers in the European markets. However, the global recessionary conditions, especially the breakout of the Russia-Ukraine war and the challenging economic conditions in the UK, have led to global supply chain issues, resulting in lower volume offtake by customers and further moderation of demand. The commercialisation of new unit catering to additional supplies in both the domestic and international markets, is expected to provide revenue visibility in the long run.

## Liquidity position: Strong

SEPL continues to demonstrate a strong liquidity position on the back of a healthy cash flow from operations. Additionally, the company had cash and liquid equivalents of Rs. 34.7 crore as on September 30, 2022 (Rs. 37.2 crore as on March 31, 2022). SEPL had a comfortable cushion of over Rs. 16.0 crore as on September 30, 2022 in the form of undrawn sanctioned working capital limits. The company has moderate annual debt repayments lined up over the medium term which can be comfortably met from its cash flow from operations.

## Rating sensitivities

**Positive factors –** The rating could be upgraded if SEPL exhibits a significant growth in revenue coupled with an improvement in profitability on a sustained basis while maintaining a healthy credit profile and liquidity position. Additionally, core ROCE above 18% on a sustained basis could trigger an upgrade**.**

**Negative factors –** The rating could be downgraded if the company shows a further decline in revenues and a significant deterioration in profitability. Further, a stretched working capital cycle leading to a moderation in its liquidity could trigger a downward movement in rating. Any high debt-funded capex impacting the coverage metrics adversely could also result in a downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the company's standalone financial profile |

# About the company

Suttatti Enterprises Private Limited (SEPL), incorporated in 1995, is the flagship company of the Suttatti Group promoted by brothers Mr. C. G. Suttatti & Late Mr. P.G. Suttatti. The company is being currently managed by Mr. Vijay Suttatti as the managing director of the company. It manufactures precision sheet metal components for the engineering and construction equipment segments. The company also provides grating and galvanizing job works. The other two Group companies are Vijay Engineering (VE) and Sumax Enterprises Pvt Ltd. (Sumax). VE, incorporated in 1964, is a tooling company which provides a wide range of quality tools and tool holders. Sumax (earlier Sumax Precision, a partnership firm established in 1980), which was converted into a private limited company in 2005, looks after the machining requirements of the Group. The sheet metal division was incorporated as a private limited company in 1995, which was converted into a closely held public limited company – Suttatti Enterprises Limited in 2006. It was again converted to a private limited company in November 2016. SEPL is a family-run business with members of the Suttatti family on its board.

### Key financial indicators (audited)

| Suttatti Enterprises Private Limited (standalone) | FY2021 | FY2022 |
|---|---|---|
| Operating income (Rs. crore) | 122.9 | 171.1 |
| PAT (Rs. crore) | 9.5 | 20.1 |
| OPBDIT/OI (%) | 17.8% | 19.4% |
| PAT/OI (%) | 7.7% | 11.8% |
| Total outside liabilities/Tangible net worth (times) | 0.4 | 0.7 |
| Total debt/OPBDIT (times) | 0.6 | 1.6 |
| Interest coverage (times) | 40.4 | 20.7 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

### 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 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | | Date & rating in FY2020 |
| | | | | | Jan 24, 2023 | Jan 28, 2022 | Mar 25, 2021 | Apr 3, 2020 | Apr 05, 2019 |
| 1 | Fund based-Working capital facilities (pre/post shipment credit) | Long Term | 18.00 | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - | - | - |
| 2 | Fund based – Term loan | Long Term | - | - | - | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) |
| 3 | Fund based - Working capital facilities (cash credit) | Long Term | - | - | - | - | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Fund based - Working capital facilities | Simple |

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 are available on ICRA's website: Click Here

### Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Long term - Fund based-Working capital facilities** | - | - | - | 18.00 | [ICRA]A- (Stable) |

***Source:*** *Suttatti Enterprises Private Limited*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure-2: List of entities considered for consolidated analysis: Not Applicable

## ANALYST CONTACTS

**Sabyasachi Majumdar**
+91-124-4545304
sabyasachi@icraindia.com

**Girishkumar Kadam**
+91 22 6114 3441
girishkumar@icraindia.com

**Anupama Arora**
+91-124-4545303
anupama@icraindia.com

**Tanya Agarwal**
+91-124-4545844
tanya.agarwal@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

+91-9354738909 (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

## Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

## Branches