February 07, 2023

Schwing Stetter India Private Limited: Ratings reaffirmed; outlook revised to Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Term Loan	188.82	188.82	[ICRA]A reaffirmed; outlook revised to Negative from Stable
Long-term/Short-term Fund-based - Working Capital Facilities	700.00	875.00	[ICRA]A/[ICRA]A2+ reaffirmed; outlook revised to Negative from Stable
Total	**888.82**	**1,063.82**	

**Instrument details are provided in Annexure-I*

Rationale

The change in outlook to Negative factors in the significant increase in Schwing Stetter India Private Limited's (SSIPL) working capital requirements, which coupled with moderate profitability levels, resulted in a higher-than-expected increase in its debt levels over the past year. Further, given the company's aggressive scale up plans, as witnessed in the past few years, ICRA expects these debt levels to remain elevated over the medium term, which could continue to constrain its credit metrics and liquidity position.

ICRA notes that the company's profitability levels have remained moderate, at around 4-5% over the past two years. This apart, SSIPL's operations have remained working capital-intensive in nature, owing to high inventory levels and elongated receivables, with the company entering deferred payment sale with some of its customers. This has resulted in significant increase in its working capital borrowings, to Rs. 683 crore as on December 31, 2022 from Rs. 131 crore as on December 31, 2021. Consequently, the leverage metrics, TOL/TNW, deteriorated to 5.9 times as on December 31, 2022 from 4.3 times as on December 31, 2021. Nonetheless, the ultimate parent, i.e. Xuzhou Construction Machinery Group (XCMG), China has extended the credit period for select products, which supports its liquidity to an extent. Given SSIPL's aggressive growth plans and consequent impact on its working capital requirement, infusion of long-term funds or meaningful reduction in current assets remains important from the credit perspective.

The ratings continue to factor in SSIPL's established market position in the domestic concreting equipment industry and wide branch network and service centres, which support its competitive position. The ratings note the strong parentage, Schwing Gmbh (Schwing), Germany, which in turn is 93% owned by XCMG. Both Schwing and XCMG are among the leading construction equipment manufacturers globally, lending strong brand recognition and technological support. The ratings further consider the steady expansion of the product portfolio in the past and the addition of new product lines/variants from XCMG. These, coupled with the commercialisation of SSIPL's new facility at Cheyyar, Tamil Nadu, led to an improvement in revenues to Rs. 3,942 crore in CY2022 (from Rs. 2,539 crore in CY2021 and Rs. 1,561 crore in CY2020). SSIPL's growth prospects remain strong over the medium term as it is being developed as a sourcing hub for select variants for the Schwing Group globally. Moreover, its market share is steadily improving across product segments.

Nonetheless, SSIPL remains susceptible to economic downturns and the intense competition in the domestic mining and construction equipment (MCE) industry. The company's profitability remains vulnerable to any adverse movement in raw material prices and foreign exchange (forex) rates owing to the high dependence on imports and foreign currency borrowings, to the extent of its unhedged exposure.

Key rating drivers and their description

Credit strengths

Established track record in MCE industry with strong parentage - SSIPL is a 100% subsidiary of Schwing Gmbh (Schwing), which is one of the leading concreting equipment manufacturers globally. Schwing, in turn, is 93% owned by the XCMG Group (China), which is one of the largest construction equipment manufacturers globally. SSIPL has a track record of over two decades in the domestic market. The company benefits from the technological support and the management oversight from its parent companies, besides having access to their product portfolio. Further, its cash conversion cycle is supported by the extended credit period by the Group companies.

Market leader in domestic concreting equipment segments - SSIPL enjoys a healthy market share in the domestic concreting equipment segment and has a leading market position in the concrete mixer, boom pumps and batching plants segments.

Steadily expanding product portfolio with increasing scale of operations - An improving market share across key product segments and a steady addition of new product segments sourced from the parent, XCMG, have expanded the customer base and diversified its geographical presence over the years. This, coupled with the commencement of the new facility at Cheyyar, Tamil Nadu, has helped SSIPL improve its revenues to Rs. 3,942 crore in CY2022 (from Rs. 2,539 crore in CY2021). SSIPL is expected to be developed as a sourcing hub for select variants for the Schwing Group globally, which strengthens its growth prospects in export markets as well..

Credit challenges

Increasing working capital borrowings exert pressure on credit metrics - SSIPL's operations remain working capital intensive due to the high inventory requirements, which coupled with the extended credit period/deferred sales plans offered to the customers, led to high receivable days (119 days as of CY2022 Provisionals). This has substantially increased the debt levels over the past few years. With moderate profitability levels, its leverage and coverage indicators have weakened, as evident from TOL/TNW of 5.9 times and total debt/OPBIDTA of 4.2 times in CY2022 (provisional). ICRA notes that with medium-term scaling up plans, the company's dependence on external debt will continue to remain high, unless it revises its credit period policy and focuses on improving its debtor collection efficiency.

Moderate profitability levels; vulnerability to fluctuations in input prices and forex rates - While SSIPL's operating profitability improved to 5.1% in CY2022 (provisional financials) from 4.4% in CY2021, it continues to remain moderate in comparison to 7-9% as seen till CY2018. The inability to fully pass on the rise in input cost (especially steel) and increasing share of traded products in the sales mix resulted in moderate profitability over the past few years. ICRA notes that the company's profitability remains susceptible to adverse fluctuations in forex prices due to high dependence on imports (mainly from China) as well as on foreign currency borrowings to the extent unhedged. Nevertheless, with softening in commodity inflation in the recent past, its profit margins are likely to improve going ahead.

Competitive industry and inherent cyclicality in end-user industry - SSIPL's revenues are directly linked to the construction activity levels, mainly housing and infrastructure projects. These sectors are closely linked to the macro-economic conditions and hence, the company's operations remain vulnerable to the cyclical slowdown in the economy. It faces stiff competition from both domestic and international players, which constrains the pricing flexibility to fully pass on the input cost pressure.

Liquidity position: Stretched

SSIPL's liquidity is stretched, owing to its high working capital requirements. While its cash accruals are expected to remain adequate vis-à-vis its debt repayment obligations, given its aggressive scale up plans, SSIPL's dependence on external debt will continue to remain high over the medium term, unless it revises its credit period policy and focuses on improving its debtor collection efficiency. Further, despite enhancement in working capital lines to Rs. 1,055 crore from Rs. 725 crore in CY2022, the cushion against its drawing power remains limited (average utilisation against drawing power was 90% in CY2022). Nonetheless, the company enjoys an extended credit period from its parent entity, XCMG, for the products sourced, which provides liquidity cushion to withstand a competitive demand environment.

Rating sensitivities

Positive factors - ICRA could revise the outlook to Stable in case of a sustained improvement in the working capital management, resulting in reduction in debt levels and improvement in liquidity profile.

Negative factors - Pressure on SSIPL's ratings could arise if there is a sustained pressure on its profitability and/or it is unable to improve the working capital cycle, which continues to impact its liquidity position. Further, any significant debt-funded capex, which impacts its credit profile, could also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Equipment
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Schwing Stetter India Private Limited, incorporated in 1998, is a wholly owned subsidiary of Schwing Gmbh, Germany, which in turn is 93% owned by Xuzhou Construction Machinery Group (XCMG), China. The company manufactures and supplies equipment and spare parts related to the handling of ready-mix concrete, viz. concrete mixers, concrete pumps, batching plants and recycling plants, in addition to the trading of XCMG products. SSIPL has five manufacturing plants, over 25 branches and eleven service centres across India with a wide range of spares, service, training, and design facilities.

The Schwing Group is one of the world's largest manufacturers of construction equipment concerning concrete. It manufactures concrete mixing equipment (batching plant), truck mixers, concrete pumps, shotcrete machines used for concreting tunnels, and recycling plants for conversion of waste concrete. The company has a wide range of equipment used to make concrete. The Schwing Group has been operating in the industry for over seven decades and has operations/offices in more than 100 countries.

The XCMG Group, established in 1989, is one of the leading Chinese manufacturers of construction machinery equipment. It is based out of Xuzhou, Jiangsu. The Group is among the largest manufacturers in the global construction machinery industry. The Group has a broad product range of heavy machinery equipment such as cranes, loaders, and heavy-duty trucks.

Key financial indicators

	CY2020	CY2021	CY2022*
Operating Income (Rs. crore)	1,560.9	2,538.6	~3,942
PAT (Rs. crore)	22.0	53.5	83.0
OPBDIT/OI (%)	4.6%	4.4%	5.1%
PAT/OI (%)	1.4%	2.1%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.8	4.3	5.9
Total Debt/OPBDIT (times)	4.6	3.0	4.2
Interest Coverage (times)	3.1	3.1	3.1

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

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 Oct 31, 2022 (Rs. crore)	Date & Rating on		Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	
					Feb 7, 2023	May 13, 2022	June 8, 2021	Sep 14, 2020	Apr 20, 2020	Feb 17, 2020	Aug 30, 2019
1	Fund-based Term Loan	Long-term	188.82	137.80	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Stable)
2	Fund-based Working Capital Facilities	Long-term/ Short-term	875.00	NA	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A+ (Stable)/ [ICRA]A1
3	Commercial paper Programme	Short-term	-	-	-	-	-	[ICRA]A2+ Reaffirmed and Withdrawn	[ICRA]A2+	[ICRA]A2+	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based - Term Loan	Simple
Long-term/Short-term 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan-I**	CY2018	8.95% (INR) 5.05% (USD)	CY2024	60.00	[ICRA]A (Negative)
NA	**Term Loan-II**	CY2019	9.25% (INR) 5.75% (USD)	CY2023	7.08	[ICRA]A (Negative)
NA	**Term Loan-III**	CY2020	7.8% (INR) 4.45% (USD)	CY2025	59.86	[ICRA]A (Negative)
NA	**Term Loan-IV**	CY2018	9.1% (INR) 5.05% (USD)	CY2024	30.94	[ICRA]A (Negative)
NA	**Term Loan-V**	CY2018	9.25% (INR) 5.05% (USD)	CY2024	30.94	[ICRA]A (Negative)
NA	**Working Capital Facilities**	NA	NA	NA	875.00	[ICRA]A (Negative)/[ICRA]A2+

Source: Schwing Stetter India Private Limited

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

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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.

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