

August 17, 2023

SFS Group India Private Limited (erstwhile Indo Schottle Auto Parts Private Limited): Long-term rating upgraded; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term – Fund-based/non-fund-based facilities	71.00	23.00	[ICRA]A+(Stable)/[ICRA]A1; Long-term rating upgraded from [ICRA]A(Stable); short-term rating reaffirmed
Total	71.00	23.00	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the long-term rating of SFS Group India Private Limited (SFS or the company) favourably factors in the improvement in SFS's business risk profile over the years, as demonstrated by a sustained revenue growth momentum and healthy operating profitability of 20-22% reported in CY2022 and 5M CY2023, with expectations of this to continue forward. The company reported 11% YoY revenue growth to Rs. 360 crore in CY2022, aided by steady volume offtake in domestic as well as export markets. It has continued this momentum in the current fiscal, with Rs. 191 crore revenues reported in H1 CY2023. Its operating margin also showed significant improvement, from 14.9% in CY2021 to 20.6% in CY2022 and further to 21.6% in 5M CY2023 (provisional). With its plans for expansion into additional product segments such as microfasteners for the electronics sector, the revenue growth and diversification can gain further pace over the near to medium term. The company continues to demonstrate a healthy liquidity profile, characterised by ample cash and liquid investments as well as unutilised working capital lines. Owing to its healthy accrual generation and support extended by group companies, SFS's dependence on external financing has historically remained low, resulting in robust leverage and coverage indicators with nil gearing as on December 31, 2022 and Total Debt/OPBITDA at 0.1 time in CY2022.

The ratings continue to factor in SFS's diversified business profile, spanning geographies and automotive business sectors. The presence of reputed clients in the domestic as well as overseas markets provides sufficient revenue visibility and supports its growth prospects. ICRA also notes the dominant market share of SFS in the domestic valve collets and rocker arm screw market, although the overall market size remains limited. The company continues to enjoy strong support from the SFS Group (its parent group), in terms of technical know-how and access to European customers. Moreover, SFS has also ventured into electronic microfastener manufacturing (a segment where its parent is already present), which is expected to provide the company with segmental diversification while augmenting its revenue growth prospects. A timely and sustained ramp up in the operations of the electronics division while maintaining current healthy profitability levels remain a monitorable.

The ratings, however, continue to remain constrained by the moderate scale of operations, although its ongoing client addition and sectoral diversification are expected to support future revenue prospects. In line with the capital-intensive nature of the industry it operates in, SFS continues to demonstrate a low asset turnover (with operating income / gross block in the range of 70-80%), and accordingly the capacity expansion it undertakes takes some time to stabilise. The company continues to invest in capacity expansion, with capex of Rs. 90-95 crore planned for CY2023, although the same is expected to be funded largely from internal accruals. While SFS has large-scale expansion plans over the medium to long term, timely execution of and funding mix for this project along with generation of commensurate returns from the same remain key monitorables. It faces the impending risk of electrification in the automotive industry, owing to its presence in components for engines and their peripheral systems. The company's ability to de-risk its business model through diversification thus remains a key credit monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectations that SFS will continue to benefit from its established track record, technological support and financial flexibility as part of the SFS Group. The well-established relationships with its key clientele are expected to provide it with sufficient revenue visibility over the near to medium term.

Key rating drivers and their description

Credit strengths

Diversified presence across geographies and automotive businesses along with reputed client base – SFS primarily manufactures high-precision machined components for engines, turbo chargers, fuel systems and hydraulics for the automotive industry, with presence across multiple automotive sub-segments such as passenger vehicles, commercial vehicles and off-highway vehicles. It has also recently diversified into electronic microfastener manufacturing, which augurs well for improving segmental diversification, going forward. Further, the company is well diversified across geographies with presence across India, USA and Europe. SFS also benefits from a well-established and reputed client base, supplying to entities with a strong credit profile, resulting in low counterparty risks.

Technological support from SFS Group – SFS Group AG is a Swiss manufacturer and supplier of precision cold formed components, special fasteners and mechanical fastening elements. By virtue of its presence in a similar business sector, SFS benefits from SFS Group's technical know-how and access to European customers. It enjoys technological support from the SFS Group, especially in the cold forming technology. As on December 31, 2022, SFS Intec Holding AG held 99.74% stake in the company.

Dominant share in domestic valve collets and rocker arm screw market – SFS commands a dominant market share in the domestic valve collets and rocker arm screw market. Although the overall market size in this segment remains limited, the company benefits from its reputed clientele and healthy wallet share with its key clients. Aided by robust market presence and significant wallet share with key customers, the company enjoys premium pricing for its product offerings.

Comfortable capital structure, coverage indicators and liquidity position supported by unused bank facilities – Due to SFS's conservative capital structure and healthy accruals, the overall coverage indicators remain comfortable with TD/OPBDITA of 0.1 time as on December 31, 2022 and interest cover of 87.4 times in CY2022. The liquidity position is also comfortable, with cash and liquid investments coupled with buffer from undrawn bank lines at Rs. 48 crore as on May 31, 2023. Limited dependence over external borrowings along with access to low-cost funding from group companies continues to support SFS's comfortable capital structure and coverage indicators.

Credit challenges

Moderate scale of operations; exposed to inherent cyclicity in automotive industry – SFS's scale of operations remains moderate compared to other rated entities in a similar rating category in the auto component sector. However, the company's presence in a niche business segment with relatively high entry barriers (because of capital intensity and long validation cycle) provides some comfort. While the company's revenues are currently susceptible to the inherent cyclicity associated with the automotive industry, its plans to venture into the electronics segment are expected to help mitigate this to some extent over the medium term.

Low asset turnover given the capital-intensive nature of business – SFS has historically reported a low asset turnover, with operating income / gross block in the range of 70-80%, reflective of the capital-intensive nature of the industry it operates in. Following the slowdown in automotive industry, along with the pandemic impact, asset turnover and profitability were impacted significantly over CY2020 and CY2021, although it has since demonstrated a turnaround.

Impending risk of electrification in automotive industry – With many products from its present portfolio used in internal combustion engines (ICE) and their peripheral systems, SFS remains vulnerable to the risk of electrification in the automotive industry. With the pace of electrification gradually gaining momentum in recent years, SFS's ability to de-risk its business model against electrification risks remains a key credit monitorable. SFS plans to enhance its focus on powertrain-agnostic

components (such as the safety parts used in automotives), which coupled with sectoral diversification into non-automotive segments through electronic micro-fastener manufacturing is expected to help mitigate the risk of electrification going forward. Furthermore, the company has also been increasing its presence in the safety parts used in automobiles.

Sizeable capex lined up over the near term, commensurate returns from the same remain key monitorable – SFS plans to invest in sizeable capex over the medium to long term, towards both maintenance as well as capacity expansion. While the funding for the capex to be undertaken in the current fiscal is expected to be primarily met through internal accruals, without impacting the capital structure, the funding mix for capex over the medium to long-term (primarily for the proposed greenfield project) is yet to be finalised. Overall, the company's ability to realise timely and commensurate returns from the capex undertaken remain a key monitorable.

Liquidity position: Adequate

SFS's liquidity profile is adequate, evidenced by its cash and liquid investments, and undrawn working capital facilities aggregating to around Rs. 48 crore as on May 31, 2023. Further, the company does not have any external short-term or long-term borrowings on its books (as on May 31, 2023) and, accordingly, no long-term debt repayment lined up over the near term. It is expected to generate healthy cash flows of Rs. 50-60 crore per annum, which coupled with its existing liquidity position should suffice to meet its capex funding requirements (Rs. 90-95 crore expected in CY2023). The company also has access to funding support from its group entities through low-cost external currency borrowings (ECBs), in case of any requirement.

Rating sensitivities

Positive factors – SFS's rating can improve with further strengthening of its business profile with a significant and sustained scale up in the scale of operations, while maintaining healthy profitability indicators and credit metrics. A sustained improvement in the liquidity profile would also be a rating positive.

Negative factors – Negative pressure on SFS's rating could arise in the event of a significant and sustained decline in the scale of operations coupled with deterioration in profitability, coverage indicators or liquidity position on a sustained basis. Specific credit metrics that could lead to a rating downgrade includes TD/OPBIDTA above 1.8 times on a sustained basis.

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	For arriving at the ratings, ICRA has considered the standalone financials of SFS.

About the company

SFS Group India Private Limited is a subsidiary of the Switzerland-based SFS Group AG, which develops and manufactures mechanical fastening systems and precision-formed components. SFS was incorporated in 1985 by first generation entrepreneurs, Mr. Vijay. B. Pusalkar and Mr. Wolfgang Schottle (a German national). In April 2012, the SFS Group acquired a 45.00% stake in the company, which subsequently increased to 99.74% as of December 2022. SFS's customer base includes almost all major OEMs in the Indian automotive sector as well as other leading tier-I suppliers. Export revenue constitutes a sizeable share of its overall revenues, with the company providing precision components for fuel injection pumps and turbochargers to reputed auto component suppliers in the engine and transmission segment. The company has also forayed into manufacturing of electronic microfasteners as part of its diversification strategy.

Key financial indicators

SFS (Standalone)	CY2021 Audited	CY2022 Audited	5M CY2023 Provisional
Operating Income (Rs. crore)	324.9	359.9	165.4
PAT (Rs. crore)	-0.2	39.2	18.4
OPBDIT/OI (%)	14.9%	20.6%	21.6%
PAT/OI (%)	-0.1%	10.9%	11.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3	0.3
Total Debt/OPBDIT (times)	0.2	0.1	0.1
Interest Coverage (times)	63.3	87.4	89.7

Source: SFS, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Total debt also includes acceptances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in	Date and rating in FY2023	Date and rating in FY2022	Date and rating in FY2021
					August 17, 2023			
1	Fund based / Non-fund based facilities	Long-term / short term	23.00	3.90	[ICRA]A+(Stable) / [ICRA]A1	[ICRA]A(Stable) / [ICRA]A1	[ICRA]A(Stable) / [ICRA]A1	[ICRA]A(Stable) / [ICRA]A1

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/short-term – Fund-based/non-fund-based 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund Based / Non Fund Based Facilities	NA	NA	NA	23.0	[ICRA]A+(Stable)/ [ICRA]A1

Source: Company

[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

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 22 6114 3442

kinjal.shah@icraindia.com

Sruthi Thomas

+91 124 4545 822

sruthi.thomas@icraindia.com

Yashowardhan Swami

+91 20 6606 9923

yashowardhan.swami@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@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

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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



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