October 04, 2023

SOGEFI Engine Systems India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Interchangeable (CC)^	(15.00)	(15.00)	[ICRA]A+ (Stable); reaffirmed
Short-term – Fund based	30.00	30.00	[ICRA]A1+; reaffirmed
Short-term – Interchangeable (LC)^	(5.00)	(5.00)	[ICRA]A1+; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I; ^interchangeable with short-term fund-based facilities*

Rationale

The ratings reaffirmation factors in the strong financial profile of SOGEFI Engine Systems India Private Limited (Sogefi/the company), characterised by robust revenue growth and operating margins, along with a strong capital structure and coverage indicators due to its debt-free status. With no significant capital expenditure (capex) plans, ICRA expects that Sogefi will maintain its debt-free status in the medium term. Additionally, the ratings draw strength from the company's strong market position, well-established relationships with leading original equipment manufacturer (OEM) customers, a substantial market share in the domestic 2W and 4W filter markets, and a presence in the aftermarket segment. ICRA also takes into account the company's strong parentage as part of the Sogefi Group, a leading player in the global auto-ancillary industry and the technological assistance extended by the parent in the past.

The ratings are, however, constrained by inherent cyclicality in the automotive industry, stiff competition from entrenched players and exposure to forex volatility risk because of sizeable imports (~28% of raw material was imported during FY2023). Moreover, impending electrification risk in the automobile industry exposes the company’s product mix to the risk of obsolescence over the long term. Nevertheless, replacement demand of components for conventional vehicles provides some support. The impact of sizeable dividend outflows in the future on the company’s liquidity position will be a key monitorable.

The Stable outlook on the long-term rating reflects ICRA’s expectations that the company will continue to benefit from extensive experience of the Sogefi Group, long track record of operations, and established relationships with its customer base.

Key rating drivers and their description

Credit strengths

Strong parentage as part of the Sogefi Group – Started as a partnership firm in July 1971, the company has been manufacturing filters for 2Ws and 4Ws for nearly five decades. In FY2008, it entered into a joint venture with the Sogefi Group, which is specialised in manufacturing filtration systems, cooling systems and flexible suspension components and is a leading global supplier of automotive parts. In August 2018, the Indian promoter Group sold its 30% stake in the company to the Sogefi Group, making the company a 100% subsidiary of the Group. The company, being a part of the Sogefi Group, enjoys significant technological support from the Group which includes technical assistance for design and development of new prototypes and for improving the efficiency of the manufactured components, which are the key requirements of the customers.

Established relationships with reputed clientele – The company’s customers include leading 2W and 4W OEMs, such as Mahindra and Mahindra Ltd., Maruti Suzuki India Ltd., TVS Motors Ltd., Hero Moto Corp Ltd. and Bajaj Auto Ltd. among others.

It has been associated with most of these customers for more than two decades and receives incremental orders from them which have supported its business prospects. The company also provides components to Fiat for its automotive engine manufacturing, which is then sold to Tata and Morris Garages (MG). The company also caters directly to Tata Motors for components such as manifold, thermostat and water pumps for largely all its models. Moreover, its revenues remain diversified with no single customer deriving more than 35% of its revenues.

Healthy financial profile – The company's financial profile remains strong with heathy revenue growth and operating margins in FY2023 on the back of growth in demand from its customers, particularly from 4W OEM customers, including Mahindra, Tata and Maruti Suzuki. The company's revenue grew by 31.1% in FY2023 to Rs. 793.0 crore from Rs. 605.1 crore in FY2022. The company's operating margins improved to 16.6% in FY2023 compared with 14.2% in FY2022, driven by robust volume growth resulting in healthy operating leverage. Moreover, its sizeable cash accruals and nil debt continue to support the company's strong capital structure and coverage metrics.

Credit challenges

Exposure to cyclicality in the automobile industry and threat from alternative automobile architecture, namely EVs – The company is exposed to the inherent cyclicality in the automobile industry. However, replacement demand for filters in 2Ws and 4Ws mitigates the demand volatility risk to an extent. The company also faces a moderate risk in the long run with increase in market share for 2W electric vehicles (EV), which do not require filters and manifolds in their architecture. However, with nearly ~70% of the company's revenue from the passenger 4W segment, some comfort is provided by the medium-term expectation of IC engines continuing to dominate the domestic 4W market. Moreover, the company's parent is already developing products for EVs, which may mitigate this risk to a certain extent. However, the impact of electrification on the company's revenues and margins over the longer term remains a key monitorable.

Exposure to fluctuations in raw material prices and foreign exchange rates – As raw material constitutes ~65-68% of the company's operating costs, the margins are susceptible to volatility in raw material prices. With imported raw materials constituting ~28% of the raw material cost, margins are exposed to foreign exchange volatilities. However, established relationships with customers provide the company with some pricing flexibility to pass on any steep fluctuations in raw material prices.

Moderate level of competition from other filter and manifold manufacturers – The company faces stiff competition from other established players in the filtration and A&C segments. Moreover, continuous investment in research and development (R&D) activities and technology support from the parent enhance the technological capabilities and enable product differentiation to some extent.

Sizeable dividend outflow impacting free cash flows – The company had a sizeable dividend outflow of Rs. 66.1 and Rs. 66.2 crore in FY2022 and FY2023 (provisional), respectively. Despite dividend payout of Rs.66.2 crore during FY2023, the company's free cash and liquid investments increased to Rs. 45.2 crore as on March 31, 2023, compared with Rs. 23.1 crore as on March 31, 2022, on the back of healthy cash generated by the operations. However, the company's free cash and liquid investment balances declined to Rs. 21.9 crore as on August 31, 2023, following dividend payout of ~Rs. 61.0 crore during the current fiscal. ICRA expects the dividend payout to be marginally higher than current levels, going forward. The impact of such sizeable dividend outflows in the future on the company's liquidity position will be a key monitorable.

Liquidity position: Adequate

Sogefi's liquidity position remains adequate, with sufficient undrawn working capital limits of Rs. 30.0 crore, which have not been utilised in the 12 months ending August 31, 2023, and no long-term repayment obligation. Despite dividend payout of Rs. 66.2 crore during FY2023, the company's free cash and liquid investments increased to Rs. 45.2 crore as on March 31, 2023, from Rs.23.1 crore as on March 31, 2022, supported by healthy cash generated by the operations. However, the company's liquidity position reduced with free cash and liquid investments of balance of Rs. 21.9 crore as on August 31, 2023, due to sizeable dividend payout (~Rs. 61.0 crore) during the current year. ICRA expects the dividend payout to be marginally higher than current levels, going forward. Further, Sogefi is expected to incur capex of ~Rs. 25.0 crore per annum, which is expected to be funded entirely by internal accruals. ICRA expects Sogefi to remain debt free over the medium term. The impact of the company's future capex plan and sizeable dividend outflow on its liquidity position will be a key monitorable.

Rating sensitivities

Positive factors – ICRA may upgrade the company's ratings, if there is any significant increase in the scale of operations with diversification of products leading to an improvement in Sogefi's profitability along with healthy cash flows and liquidity position, on a sustained basis.

Negative factors – Pressure on the ratings may arise, if there is any sustained decline in the sales volumes and/or realisations adversely impacting its profitability and return indicators. A specific credit metric for a downgrade is if Total Debt/OPBDITA weakens to greater than 1.5 times, on a sustained basis. The ratings also may be downgraded if the company's liquidity profile weakens because of sizeable dividend outflow or any large debt-funded capex.

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 Sogefi.

About the company

A part of the Italian Sogefi Group, Sogefi manufactures air, oil and fuel filters for automobile engines, air intake manifolds and engine-cooling systems. It was started as a partnership firm in July 1971 as M. N. Ramarao & Company. In November 2008, a joint venture was formed with Filtrauto Societe Anonyme, a subsidiary of Sogefi SpA, and the company was renamed as SOGEFI MNR Filtration India Private Limited in April 2009. In April 2014, the company was merged with Systemes Moteurs India Pvt. Ltd. to form SOGEFI-MNR Engine Systems India Private Limited. Subsequently, it was again renamed as Sogefi Engine Systems India Private Limited. In August 2018, its promoter group who held a 30% stake in the company sold their entire stake to the Sogefi Group, making Sogefi a 100% subsidiary. The company has a manufacturing unit each in Bengaluru, Pune and Gurgaon. It also has an R&D centre as a part of the Bengaluru manufacturing unit.

Group Profile

The Sogefi Group is a leading global supplier of original parts for the automotive industry. Founded in 1980, Sogefi is now present in 18 countries with 37 production plants. The Group's holding company, Sogefi SpA, has 37 consolidated companies, and subsidiaries in three business units—viz., the air and cooling business unit, filtration business unit and suspensions business unit. In 2011, Sogefi had bought the French car components group, Systèmes Moteurs, which is a leading global manufacturer of air management and engine cooling systems.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	605.1	793.0
PAT	44.6	91.2
OPBDIT/OI	14.2%	16.6%
PAT/OI	7.4%	11.5%
Total outside liabilities/Tangible net worth (times)	0.6	0.7
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	NM	549.7

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Provisional*

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 FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 04, 2023	July 29, 2022	Apr 12, 2021	-
1	Interchangeable (CC)^	Long-term	(15.00)	0.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	-
2	Fund Based	Short-term	30.00	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Interchangeable (LC- Sub Limit of WCDL)^	Short-term	(5.00)	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

^The interchangeable limits are sub-limits of the short-term fund-based limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Interchangeable (CC)	Simple
Fund based	Simple
Interchangeable (LC- Sub Limit of WCDL)	Very 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Interchangeable (CC)**	NA	NA	NA	(15.00)	[ICRA]A+(Stable)
NA	**Fund based**	NA	NA	NA	30.00	[ICRA]A1+
NA	**Interchangeable (LC- Sub Limit of WCDL)**	NA	NA	NA	(5.00)	[ICRA]A1+

Source: Company

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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