October 09, 2023

# STEER Engineering Private Limited: Ratings reaffirmed; outlook revised to Negative from Stable

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long term - Fund based - Cash Credit** | 50.00 | 50.00 | [ICRA]BBB+ (Negative); reaffirmed and outlook revised to Negative from Stable |
| **Long term - Fund based – Term Loan** | 22.83 | 22.83 | [ICRA]BBB+ (Negative); reaffirmed and outlook revised to Negative from Stable |
| **Short term – non-Fund based limit** | 12.00 | 12.00 | [ICRA]A2; reaffirmed |
| **Short term – Interchangeable** | (20.00) | (20.00) | [ICRA]A2; reaffirmed |
| **Total** | **84.83** | **84.83** | |

**Instrument details are provided in Annexure-I*

## Rationale

For arriving at the rating, ICRA has considered the consolidated financials of STEER Engineering Private Limited (SEPL) and its subsidiaries referred to as the Group on account of common management and operational and financial linkages.

The revision in outlook to Negative from Stable reflects the pressure on the credit profile of the Group owing to a decline in revenue coupled with an increase in fixed overheads expenses. SEPL was expected to post higher profits year-on-year (YoY), backed by its order book position. However, the company reported a 16.8% YoY decline in revenues and cash losses of Rs. 5.3 crore in FY2023 following deferment of orders by the customers resulting in higher unbilled revenues, relatively higher R&D expenses for its new products and under-recovery of fixed expenses. As indicated by the Management, the order deferment by customers and high R&D charges was a one-time event and the company now expects jump in order inflows and execution for the newly developed products. While the accruals are expected to be better on the back of an expected improvement in sales and margins, they are likely to remain weaker than ICRA's earlier expectation for FY2024. Going forward, the company's ability to significantly improve its operating profitability while maintaining adequate liquidity position would be a key rating sensitivity.

The ratings continue to derive comfort from the company's experienced professional management with strong technical capabilities and a long track record in manufacturing extruder elements and machines. The ratings also consider an improved open order book (Rs. 165 crore as on August 2023 end as compared to Rs. 130 crore as on August 2022) and expected revenue growth backed by the company's diversification into extruder machines for the food and pharmaceutical industries and new product offerings in the polymers segment. The rating also continues to draw a comfort from SEPL's comfortable capital structure and adequate liquidity position.

The rating, however, are constrained by the Group's moderate scale of operations and margin profile. The ratings are further constrained by the inherent cyclicality in the capital goods sector and an intensely competitive industry, marked by the presence of well-established multinational players. Also, the ratings are constrained by the high working capital intensive operations, as reflected in the high inventory holdings. The company's profits are susceptible to the volatility in raw material prices given the fixed price nature of contracts. However, the company's policy of putting a mark-up on the raw material procurement price while quoting the customer and natural hedging (with both forex receivables and payables in place) protect the profitability to an extent.

## Key rating drivers and their description

### Credit strengths

**Experienced professional management and a long track record in manufacturing extruder elements and machines** - STEER was established in 1993 by a technocrat, Dr. Babu Padmanabhan. It began as a manufacturer of extruder elements for co-rotating twin screw compounding extruders for the polymer industry. The company began manufacturing its own brand of extruder machines in 2003 and over the years, it has developed a large range of machines capable of handling a wide range of applications. The company's experienced management and its ability to take up projects in the food and pharma extrusion segments would drive revenue growth in the near term. The product quality of STEER is reflected in its ability to penetrate the highly competitive global markets.

**Comfortable order book position; diversified customer base and geographical presence**- The company has an open orderbook position of ~Rs.165 crore as on August 2023 which provides near-term revenue visibility. Apart from domestic operations, STEER has overseas subsidiaries in the USA, China and Japan, besides agents across Europe, Korea, Middle East etc. to support export sales. At the consolidated level, the export sales have contributed around ~60-67% to the total revenue over the last three years. The company's major export markets are the USA, Japan and Europe. To diversify its revenue base, STEER is focused on widening its geographical footprint and increasing its exports. Further, the company has forayed into the food and pharma sectors with extruders supplied to the major players.

**Comfortable capital structure and adequate liquidity position** - The company's capital structure is comfortable, marked by a gearing of 0.4x as on March 31, 2023 (consolidated financials). With expected improvement in scale and recovery in margins, the capital structure is expected to remain comfortable in the absence of any major debt-funded capital expenditure over the medium term. The coverage metrics are also expected to improve and remain adequate for FY2024. Its liquidity position is adequate, supported by undrawn line of credit of Rs. 32 crore as on June 2023.

### Credit challenges

**Sharp decline in margins in the last fiscal owing to higher fixed costs and moderation in top line –** STEER reported a lower revenue in FY2023 due to delay in lifting the machineries from customer side The margins were affected by the increase in operating expenses and unbilled revenue for a few machines which were in transit. Going forward, adequate improvement in the company's margins, supported by an improvement in revenue, would be a key credit monitorable.

**Moderate scale of operations** - STEER's scale of operations remains moderate, marked by a consolidated revenue of Rs. 192.6 crore in FY2023. The moderate scale of operations exposes the company to the risk of a business downturn and its ability to absorb a temporary disruption and leverage fixed costs. The risk is accentuated by STEER's substantial dependence on the overseas markets, rendering it vulnerable to the global macro environment.

**High working-capital intensity of operations** - The company is involved in a high working capital intensive business with a manufacturing cycle of 3-4 months (for machines). It has to maintain inventory considering the delivery lead time for raw materials. Also, owing to relatively high sales in the last quarter and unbilled revenues, the company's working capital intensity remained high at ~21-25% in the last two fiscals. However, the company has been able to manage the working capital requirements, partly by availing extended credit period from suppliers and advances from clients.

**Inherent cyclicality in capital goods sector and intensely competitive industry** - As the company's performance is dependent on the growth of its end-user industries, shifts in economic cycles increase its susceptibility to the cyclicality in demand growth and significantly impact the revenues and cash flows. Moreover, STEER faces intense competition in the export market from other well-established global players.

**Vulnerability to foreign currency fluctuation risk** - The company's profitability is susceptible to forex risks to the extent of the unhedged exposure, although the risk is largely covered by natural hedging with both forex receivables and payables in place. Further, the risk is also reduced by foreign currency loans and by managing the currency flow from its subsidiaries to a favourable exchange rate.

## Liquidity position: Adequate

STEER's liquidity remains adequate, marked by unutilised fund-based facilities of Rs. 32 crore as of June 2023, against scheduled debt repayment of ~Rs. 5.84 crore. The average utilisation of working capital limits stood at ~38% over the 14-month period ending June 2023.

## Rating sensitivities

**Positive factors** - A rating upgrade is unlikely in the near term, given the negative outlook on the long-term rating. ICRA could revise the outlook to Stable from Negative if there is improvement in its revenues, coupled with strong recovery in operating margins, on the back of healthy order flows.

**Negative factors** - Pressure on the ratings could arise if there is a substantial decline in its scale of operations or inability to improve profitability. Additionally, the ratings may be downgraded if STEER undertakes any large debt-funded capex or a stretch in the working capital cycle adversely impacts its liquidity profile and other key credit metrics (interest coverage less than 3 times on a sustained basis).

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | The rating is based on the consolidated financials of STEER Engineering Private Limited, its subsidiaries (full consolidation) and associate concerns (equity method). The list of the entities is given in Annexure-2 |

## About the company

STEER, established in 1993, designs and manufactures co-rotating twin screw extruders, extruder processing zone elements and peripherals for the polymer industry. The company is promoted by first-generation entrepreneur, Dr. Babu Padmanabhan, who is the Managing Director. It has manufacturing units in Bengaluru and a foundry in Coimbatore. STEER has a capacity to manufacture over 84,000 extruder elements and 140 extruders annually. STEER has wholly-owned subsidiaries — STEER Japan Corporation (SJC), STEER America Inc. (SAI) and STEER China Global (SCG) — to carry out sales and marketing activities in the respective regions. STEER had demerged its pharma business which has been transferred to STEERLIFE India Private Limited (76%-owned subsidiary of STEER Engineering), with an appointed date of April 1, 2016

### Key financial indicators (audited)

| SEPL | Standalone FY2022 | Standalone FY2023 | Consolidated FY2022 | Consolidated FY2023 |
|---|---|---|---|---|
| **Operating income** | 211.1 | 201.4 | 231.6 | 192.6 |
| **PAT** | 8.1 | 2.0 | 9.6 | - 12.1 |
| **Adj. OPBDIT/OI *** | - | - | 9.2% | 0.04% |
| **PAT/OI** | 3.8% | 1.0% | 4.2% | -6.3% |
| **Total outside liabilities/Tangible net worth (times)** | 1.1 | 1.1 | 1.2 | 1.8 |
| **Adj. Total debt/ OPBDIT (times) *** | - | - | 1.7 | 463.9 |
| **Adj. Interest coverage (times) *** | - | - | 7.7 | 0.02 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*; * OPBDITA is adjusted by adding forex gain/loss and liability written back; *Note: Amount in Rs. crore; All calculations are as per ICRA Research*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2024) Type | Amount Rated (Rs. crore) | Amount Outstanding as of March 31, 2023 (Rs. crore) | Date & Rating in FY2024 | Chronology of Rating History for the past 3 years: Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
|---|---|---|---|---|---|---|---|---|
| | | | | | Oct 09, 2023 | Sep 27, 2022 | Aug 10, 2021 | - |
| 1 | Cash credit | | | | | | | |
| 2 | Term loans | | | | | | | |
| 3 | Non-fund-based facilities | | | | | | | |
| 4 | Interchangeable limits | | | | | | | |

*^consolidated level*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Cash Credit | Simple |
| Term Loans | Simple |
| Non-fund based facilities | Very simple |
| Interchangeable limits | 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 | Cash Credit | NA | NA | NA | 50.00 | [ICRA]BBB+ (Negative) |
| NA | Term Loans | October 2020 | NA | October 2024 | 22.83 | [ICRA]BBB+ (Negative) |
| NA | Non-fund-based facilities | NA | NA | NA | 12.00 | [ICRA]A2 |
| NA | Interchangeable limits | NA | NA | NA | (20.00) | [ICRA]A2 |

*Source: Company*

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

### Annexure II: List of entities considered for consolidated analysis:

| Company Name | STEER's Ownership | Consolidation Approach |
|---|---|---|
| STEER Engineering Private Limited (STEER) | - (Rated entity) | Full Consolidation |
| STEER America Incorporation | 100.00% | Full Consolidation |
| STEER Japan Corporation | 100.00% | Full Consolidation |
| STEER China (Global) Limited | 100.00% | Full Consolidation |
| STEERLife India Private Limited | 76.22% | Full Consolidation |
| STEER Information Technologies Private Limited | 44.75% | Equity Method |
| Phitons Bioengineering Private Limited | 30.00% | Equity Method |

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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.

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