January 12, 2024

EFTEC (India) Private Limited: Ratings 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 Working Capital Facilities	16.00	16.00	[ICRA]BBB+(Stable)/ [ICRA]A2; reaffirmed
Total	**16.00**	**16.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings of EFTEC (India) Private Limited (EFTEC or the company) factors in the track record of the strong financial, operational and managerial support from its parent, the Swiss EMS Group (the Group), and likely continuation of the same. The EMS Group is a leading global player in the high-performance polymers and speciality chemicals space; and over the years, EFTEC has benefited from the experience and expertise of its parent. The ratings continue to draw comfort from the established market position of EFTEC in the bonding, coating, sealing and damping adhesives used in the domestic automotive industry. Moreover, EFTEC continues to demonstrate a comfortable financial profile with low leverage and healthy return indicators, as reflected by zero debt and return of capital employed (RoCE) of 69% for FY2023 (21% for FY2022).

The ratings, however, continue to remain constrained by EFTEC's moderate scale of operations, with the entire revenues derived from the domestic automotive market, exposing the company to the inherent cyclicality associated with the automotive industry. Furthermore, its profitability remains susceptible to fluctuation in raw material prices, which are in turn linked to global crude oil prices. Any significant fluctuation in the raw material prices could, therefore, have an impact on the profitability metrics of the company. Its margins also remain exposed to currency fluctuations, as the company imports a considerable portion of its raw materials. As it does not have an active hedging mechanism in place, any severe forex movement could have a sizeable impact on the company's margins. However, the risk is mitigated as a significant part of the imports is procured from Group companies, which provides some comfort in the form of pricing flexibility and payment terms. ICRA also notes the sizeable dividend payouts from EFTEC during FY2023 and 9M FY2024, but the strong parent profile mitigates the risk (as indicated by strong cash flow generation from the ultimate parent entity, with low debt).

The Stable outlook on the long-term rating reflects ICRA's expectations that EFTEC will continue to benefit from its strong parentage and demonstrate sufficient revenue visibility over the medium term on the back of repeat orders from clients, in line with overall growth in the passenger vehicle (PV) industry.

Key rating drivers and their description

Credit strengths

Wholly-owned subsidiary of Swiss EMS Group; strong financial, technical and marketing support from parent – The EMS Group (CHF 2,441.9 million sales in CY2022) operates globally in high performance polymers and speciality chemicals. It has 25 production sites across 16 countries and is represented throughout the world by self-owned sales companies or distributors/traders. In April 2012, the EMS Group acquired the Shroff Group's entire stake, making EFTEC the former's wholly-owned subsidiary. The parent extends significant technical support (through the R&D assistance for products), financial and marketing support to the company.

Established market position in bonding, coating, sealing and damping adhesives for the domestic automobile industry – The EMS Group is one of the global leaders in providing bonding, coating, sealing and damping adhesive solutions for the automobile industry. EFTEC has an established position in the domestic market, backed by its parent's established relationships with international original equipment manufacturers (OEMs) in India, resulting in a strong and stable clientele of reputed automotive OEMs. It supplies to various manufacturing facilities of these OEMs, catering primarily to the PV and utility vehicle (UV) segments, while enjoying a healthy share of business with them.

Comfortable financial profile – EFTEC continues to demonstrate a comfortable financial profile, as evidenced by its debt-free position (with the company reporting its debt-free status for a fourth consecutive year in FY2023, and continuing to remain debt-free in 9M FY2024), robust credit metrics and healthy liquidity profile. The financial profile is expected to remain comfortable over the near to medium term, in the absence of any significant debt-funded planned capital expenditure (capex).

Credit challenges

Moderate scale of operations; exposed to inherent cyclicality in the automotive industry – The company's overall scale of operations remains moderate with revenues of Rs. 254.5 crore in FY2023. While the company reported a decent 49% YoY revenue growth in FY2023, driven by revival in the PV industry and price hikes undertaken with key clients, its operating income is expected to remain range-bound over the medium term, given its niche segment of operations. The moderate scale of operations limits EFTEC's ability to absorb fixed overheads effectively and benefit from economies of scale.

Profitability susceptible to fluctuation in raw material prices and currency movement – The company's profitability is exposed to fluctuations in raw materials prices, which constitute ~65-70% of its overall cost structure. Further, its profitability is vulnerable to forex fluctuations as EFTEC imports a sizeable portion (~30-40%) of its raw material requirements. Any severe fluctuations in raw material prices, or any significant movement in forex rates could, therefore, impact EFTEC's profitability metrics. However, a significant part of the imports is procured from Group companies, which provides some comfort in the form of pricing flexibility and payment terms.

High geographical concentration risk – EFTEC continues to see geographical concentration risks, with most of its sales concentrated in South and West India. The company does not have any exports at present, resulting in the company's susceptibility to cyclicality in the underlying domestic PV industry.

Recurring dividend pay-outs over a longer timeframe leading to cash outflow – EFTEC has reported sizeable dividend pay-outs in the past (barring the pandemic period), with the quantum of dividend pay-out being Rs. 22 crore and Rs. 38 crore in FY2023 and 9M FY2024, respectively, with the anticipations that the same will be recurring. While significant dividend pay-outs have resulted in sizeable cash outflow for the company over the years, comfort is drawn from the comfortable liquidity position and debt-free status of the company. ICRA also notes that the parent entity (EMS Group) has strong operating cash flows over a longer timeframe with negligible debt on its balance sheet. ICRA expects the company to conserve internal cash flows for any expansion funding.

Liquidity position: Adequate

EFTEC's liquidity is adequate, evidenced by its cash and liquid investments of Rs. 33.0 crore and undrawn working capital facilities of Rs. 13.0 crore as on March 31, 2023 (cash and liquid investments and buffer in the form of undrawn working capital facilities stood at ~Rs. 12 crore and Rs. 13 crore, respectively, as on December 31, 2023). Capex requirements are minimal at Rs. 2.0-4.0 crore annually and are expected to be comfortably met by internal accruals and existing sources of liquidity. The company remained debt-free for a fourth consecutive year in FY2023, highlighting its limited dependence on external borrowings to meet its funding requirements. While the quantum of dividend pay-outs is expected to remain sizeable over the near to medium term, it is expected to be aided by healthy cash flow generation of Rs. 20-30 crore per annum, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is sustained growth in the scale of operations while maintaining healthy return indicators and low leverage.

Negative factors – Deterioration in the liquidity position of the company, or any weakening in support to EFTEC from its parent entity, could lead to a rating downgrade. Deterioration in coverage indicators, such that TD/OPBIDTA is above 2.5 times on a sustained basis, could also exert downgrade rating pressure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group Support	Parent/Group Company: EMS Group The ratings are based on the implicit support from the EMS Group, as both EFTEC and the Group operate in the same business of bonding/sealing solutions. There are significant business linkages between EFTEC and its parent/group entities in terms of financial assistance and operational support (assistance in the R&D of new products, as well as common supplier base).
Consolidation/Standalone	The ratings are based on the standalone financial statements of EFTEC (India) Private Limited.

About the company

EFTEC (erstwhile EFTEC Shroff (India) Limited) was incorporated in 2000 as a joint venture (51:49) between Shroff Group (promoters of Punjab Chemicals and Crop Protection Ltd.) and EFTEC Asia PTE Ltd. In April 2012, the EMS Group acquired complete stake from the Shroff Group, and EFTEC became a 100% subsidiary of the EMS Group, Switzerland. It operates in the niche segment of manufacturing and supplying bonding, coating, sealing and damping adhesives to the automobile industry. The company has a manufacturing unit at MIDC, Ranjangaon, in the Pune district of Maharashtra.

Key financial indicators

EFTEC	FY2022 Audited	FY2023 Audited
Operating Income (Rs. crore)	170.8	254.5
PAT (Rs. crore)	7.0	28.1
OPBDIT/OI (%)	7.2%	15.9%
PAT/OI (%)	4.1%	11.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	15.1	63.9

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

Source: EFTEC, 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)				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
					12-Jan-24	22-Nov-22	3-Sep-21	30-Oct-20
1	**Working Capital Facilities**	Long-term / Short- term	16.00	0.00	**[ICRA]BBB+ (Stable) / [ICRA]A2**	**[ICRA]BBB+ (Stable) / [ICRA]A2**	**[ICRA]BBB+ (Stable) / [ICRA]A2**	**[ICRA]BBB (Stable) / [ICRA]A3+**
2	**Unallocated Facilities**	Long-term / Short- term	-	-	-	-	-	**[ICRA]BBB (Stable) / [ICRA]A3+**

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund Based / Non 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Working Capital Facilities	NA	NA	NA	16.0	[ICRA]BBB+(Stable)/ [ICRA]A2

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

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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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