February 20, 2024

Suttatti Enterprises Private Limited: Rating reaffirmed, outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Pre/post shipment credit (working capital facilities)	18.00	18.00	[ICRA]A- reaffirmed; outlook revised to Negative from Stable
Total	**18.00**	**18.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating of Suttatti Enterprises Private Limited (SEPL) factors in the moderation in the company's scale of operations in FY2024 and a lower-than-expected revenue ramp-up going forward. While the company's revenue was expected to moderate in FY2023 because of the sale of the gratings division, the revenue in FY2024 is also expected to remain nearly in line with the FY2023 levels. The revenue growth has been impacted by weak macroeconomic conditions in the export markets impacting the offtake of sheet metals and a slow ramp-up of the defence segment.

The rating continues to factor in the established relations of the company with reputed clients, a healthy share of business in the products supplied and the stable revenue and profits from the export-oriented unit (EOU) which support cash generation and geographical diversification. The rating also factors in SEPL's healthy financial risk profile, marked by a comfortable capital structure and adequate coverage indicators. The liquidity position remains healthy, driven by steady cash flow from operations which will be adequate to service the debt and meet any capex requirement.

The rating is, however, constrained by the company's modest scale of operations in each segment along with the moderately high working capital intensity of operations. The rating is also constrained by the significant client concentration risk as the top five customers contribute to more than 60% of the revenue. However, the company's long association with these customers has resulted in repeat orders and integration of SEPL's products in the customers' supply chains. Further, the challenging global economic conditions have led to a moderation in demand on account of the supply chain issues faced by the customers, resulting in lower offtakes and adversely impacting the revenues in the near term. The commercialisation of the new unit will expand the revenue base, resulting in healthy revenue visibility for the medium term and will remain a key monitorable.

Key rating drivers and their description

Credit strengths

Established relationship with reputed clients – The company has an established relationship with reputed players in the auto and construction equipment segments and a healthy share of business in the products supplied. Further, the commercialisation of a new unit for domestic and international defence supplies with orders from large international players is expected to drive revenue growth over the medium term, while offering sufficient revenue visibility to the company.

Steady revenues and profits from EOU enable geographic diversification of revenues and support profitability – The company's export-oriented unit (EOU) has been able to generate steady revenues with comfortable profits over the past few years. SEPLs' ability to meet the specific product requirements of its clients while maintaining high-quality standards has led to high operational margins from the division. This has also helped the company diversify its revenues across countries such as the US, the UK, Hong Kong and India. Although the profitability from the sheet metal division remains modest, comfortable profits from the EOU support the company's overall profitability.

Comfortable capital structure and coverage metrics with strong liquidity position - SEPL has a comfortable capital structure, characterised by gearing of 0.1x in FY2023. The coverage indicators are supported by healthy accruals with TOL/TNW at 0.6x and interest coverage ratio at 8.4x for FY2023. Further, despite the lower OI (provisional) for H1 FY2024, the coverage metrics continue to be comfortable with interest coverage ratio of 9.2x and DSCR of 2.1x. Liquid investments in the form of equity instruments continue to provide sufficient cushion to the company's liquidity. SEPL had liquid investments (equity instruments) of Rs. 44.8 crore in FY2023 and 37.0 crore as on September 30, 2023.

Credit challenges

Client concentration risk – SEPL's key clients contributed to more than half of its total sales in FY2023 and H1 FY2024, exhibiting high client concentration risk. However, its healthy share of business in certain products manufactured for these clients and the long-term relationship with them mitigate the risk to an extent.

Modest scale of operations in each business segment – SEPL's scale of operations remains modest with Rs. 116.8-crore revenue in FY2023. The revenues are expected to remain in line with the previous year's levels. Muted demand from the domestic market on the back of low capex by the consuming infrastructure industries has been the major reason for low domestic revenues over the past few fiscals. Healthy demand prospects from end-user industries would improve the scale, with the company also expanding the capacity to address the growing demand.

Working capital-intensive operations – SEPL's working capital intensity has remained moderately high owing to the credit period offered to the export customers and the elevated inventory levels. However, the extended credit from the suppliers helped mitigate the impact of the increase in inventory levels. The working capital intensity increased to 40.8% in FY2023 from 36.2% in FY2022.

Muted demand due to global economic conditions and supply chain disruptions – Direct exports have contributed to 40-60% of SEPL's sales over the past few fiscals, with a large part of these exports being made to one big customer in the US and others in the European markets. However, in the current year, the volume offtake has been lower because of the global recessionary conditions, especially due to the Russia-Ukraine war and the challenging economic conditions in the UK that led to global supply chain issues.

Liquidity position: Strong

SEPL continues to demonstrate a strong liquidity position on the back of a healthy cash flow from operations. Additionally, the company had cash and investments (including investments in mutual funds and AAA bonds) of Rs. 46.2 crore as on March 31, 2023 (Rs. 37.2 crore as on March 31, 2022). SEPL had a comfortable cushion of over Rs. 8 crore as of October 2023 end in the form of undrawn sanctioned working capital limits. The company has moderate annual debt repayments lined up over the medium term which can be comfortably met from its cash flow from operations.

Rating sensitivities

Positive factors – The rating could be upgraded if SEPL exhibits a significant growth in revenue coupled with an improvement in profitability on a sustained basis while maintaining a healthy credit profile and liquidity position.

Negative factors – The rating could be downgraded if the revenues decline further, or if there is a significant deterioration in profitability. Further, a stretched working capital cycle leading to a moderation in its liquidity could trigger a downward movement in rating. Any high debt-funded capex impacting the coverage metrics adversely could also result in a downgrade.

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 company's standalone financial profile

About the company

Suttatti Enterprises Private Limited (SEPL), incorporated in 1995, is the flagship company of the Suttatti Group promoted by brothers Mr. C. G. Suttatti & Late Mr. P.G. Suttatti. The company is being currently managed by Mr. Vijay Suttatti as the Managing Director of the company. It manufactures precision sheet metal components for the engineering and construction equipment segments. The company also provides grating and galvanising job works. The other two Group companies are Vijay Engineering (VE) and Sumax Enterprises Pvt Ltd. (Sumax). VE, incorporated in 1964, is a tooling company which provides a wide range of quality tools and tool holders. Sumax (earlier Sumax Precision, a partnership firm established in 1980), which was converted into a private limited company in 2005, looks after the machining requirements of the Group. The sheet metal division was incorporated as a private limited company in 1995, which was converted into a closely held public limited company – Suttatti Enterprises Limited - in 2006. It was again converted to a private limited company in November 2016. SEPL is a family-run business with members of the Suttatti family on its board.

Key financial indicators (audited)

SEPL Standalone	FY2022	FY2023	H1 FY2024*
Operating income	171.1	116.8	58.2
PAT	20.2	12.0	9.6
OPBDIT/OI	19.4%	15.1%	25.0%
PAT/OI	11.8%	10.3%	16.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	-
Total debt/OPBDIT (times)	1.0	1.6	-
Interest coverage (times)	20.7	7.2	15.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

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 on Feb 19, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Feb 20, 2024	Jan 24, 2023	Jan 28, 2022	Mar 25, 2021	Apr 03, 2020
1	Fund based-Working capital facilities (pre/post shipment credit)	Long Term	18.00	--	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
2	Fund based – Term loan	Long Term	-	--	-	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Fund based - Working capital facilities (cash credit)	Long Term	-	--	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based working capital	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	Fund based - Working capital facilities	-	-	-	18.00	[ICRA]A- (Negative)

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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