

March 28, 2024

Surin Automotive Private Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|------------------------------|
| Long-term – Fund-based – Working Capital | 79.00 | 79.00 | [ICRA]A (Stable); reaffirmed |
| Long-term – Fund-based – Term Loan | 47.00 | 47.00 | [ICRA]A (Stable); reaffirmed |
| Short-term – Non-fund Based Limits | 40.00 | 40.00 | [ICRA]A1; reaffirmed |
| Total | 166.00 | 166.00 | |

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for Surin Automotive Private Limited (Surin) factor in the company's steady performance in FY2023 and 9M FY2024, as marked by steady accrual generation, stability in revenues and profit margins. Surin's operating income grew by 30.4% on a YoY basis at Rs. 984.6 crore in FY2023 supported by healthy offtake from its key customers across business segments (commercial vehicles or CVs, construction equipment or CE and tractors) in the domestic market. In 9M FY2024, the company recorded sales of Rs. 669.2 crore and is estimated to report some moderation in sales in FY2024 primarily due to discontinuation of passenger vehicles (PV) and some moderation in demand in the CV segment in recent months.

Nonetheless, accrual generation will be supported by stable operating margins driven by softening raw material prices, increasing export revenues and product mix. Despite a relatively muted growth outlook for the CV and tractor segment over the near term, steady growth in the CE segment on the back of healthy scale up of exports is expected to support revenue growth for FY2025. The ratings also continue to draw comfort from the company's established business position across its key business segments and extensive experience of its promoters in the domestic auto component industry. Leveraging the same, Surin has set up a geographically well-spread manufacturing base and a wide customer base, which includes reputed original equipment manufacturers (OEMs) such as Ashok Leyland Limited (ALL), TAFE Motors and Tractors Limited (TMTL), Tata Motors Limited (TML) and JCB India Limited, along with the sizeable share of business with some of the key OEMs.

The ratings are, however, constrained by Surin's moderate operating margins owing to the highly competitive nature of the industry and vulnerability to fluctuations in prices of key raw material. However, profitability has witnessed improvement in FY2023 and have remained stable in the current fiscal, which is expected to continue on the back of increasing economies of scale, higher export contribution and discontinuation of margin decreative business segments. The ratings also factor in the exposure of Surin's earnings to the cyclicity in the auto industry and vulnerability of its operations to performance of principle OEMs. Moreover, the company faces high customer concentration risk with its top 10 customers driving 84% of its total sales in recent fiscals. However, its established relationships and high share of business with key OEMs mitigate this to an extent.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company will continue to benefit from its established business position, strong relationships with its key customers, supporting the growth and accrual generation over the near to medium term.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of promoters in the automotive industry – Over the years, Surin has established itself as a leading automotive components supplier for various segments – CV, CE and tractors, supported

by its diverse product profile and vast manufacturing facilities across the country. The company has been promoted by the Choudhari family who have an extensive experience in the automotive components industry.

Reputed client profile with established relationships – Surin primarily caters to the requirements of ALL in the CV segment. It also caters to other OEMs like TML and VE Commercial Vehicles Limited. In the CE segment, it supplies counterweights, tanks and buckets to OEMs like JCB, Hyundai Construction, Kobelco, Komatsu, Volvo India Limited, etc. Additionally, the company has started supplying fabrication-based products for generators, heavy forklifts, tanks, etc, towards export orders, which are margin-accretive in nature. In the farm segment, Surin supplies axles, bumpers, fenders, mudguards, wheel weights, etc, to OEMs like TAFE and TMTL. Surin's established relationships with its reputed clientele support repeat orders and continues to provide stable visibility to revenues and earnings. Moreover, the healthy scale up of exports expected for the CE segment, and addition of new customers is expected to further aid in revenue growth for the medium term.

Diversified revenue profile aided by presence across various segments and geographies – Surin's operational profile is supported by its established presence in the body fabrication of products used in segments like CVs (mostly medium and heavy commercial vehicles, or M&HCVs), tractors, CE (mostly excavators) and seat and seating systems. Sales in the CV segment represent ~56% of the total sales followed by ~29% in CE and ~15% in farm/tractors. The company has discontinued its PV business in FY2023 owing to its margin dilutive nature. Presence across multiple segments and wide geographical presence with manufacturing units in seven locations (Bangalore, Alwar, Pune, Chennai, Sitarganj, Bhopal and Indore) supports the diversification of the revenue profile. Moreover, the company is focussed on scaling up its export revenue in the near term.

Credit challenges

Moderate profit margins due to competitive intensity of the business and vulnerability to raw material price volatility – Surin's operating margins are susceptible to volatility in prices of its key raw material, steel. Although Surin has a back-to-back raw material price increase pass-through arrangement for ~70% of its customers, it is unable to pass on the same for the balance, translating into moderate profit margins for the company in recent years. Moreover, profitability is exposed to high competitive intensity of the business owing to presence of several global and domestic suppliers in the industry, which limits pricing flexibility to an extent. However, Surin benefits to an extent through its established operational track record and established relationships with its key customers, with whom it enjoys a sizeable share of business.

High customer concentration risk with business operations vulnerable to the performance of principal OEMs – Surin's top 10 customers have accounted for ~84% of its revenue in recent years, with its top customer, ALL, accounting for ~40% of its revenue in FY2023 and 8M FY2024. This has continued to result in high customer concentration risk for the company and vulnerability of its operations to the performance of the key OEM. However, the concentration is expected to decline to some extent, going forward, with the addition of new customers in both domestic and international markets.

Exposed to cyclical in the automotive industry – Surin's products find application in the CV, CE and farm segments, exposing its revenues to the cyclical in demand from these categories. However, the risk is mitigated to a certain extent by the company's continued diversification efforts by entering export markets under the CE segment and its constant effort to increase its wallet share with existing automotive OEMs and through the addition of new customers. Its well-established relationships with major OEMs also partly mitigate the risk.

Liquidity position: Adequate

Surin's liquidity position is adequate supported by steady internal accrual generation and cushion in the form of undrawn bank lines of ~Rs. 60 crore as on February 2024. Its average working capital utilisation was 35% of the sanctioned limits and 22% of drawing power during the last 12-month period ending in February 2024. The company has debt repayment obligations of ~Rs. 16-18 crore p.a. over FY2024 and FY2025. Moreover, the company also has capex plans of Rs. 25-30 crore p.a. over this period. ICRA expects the company to adequately meet its debt repayment through internal accruals and capex requirements through a mix of external borrowings and internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company demonstrates healthy growth in revenues and profitability, resulting in strengthening of its coverage indicators on a sustained basis. Specific credit metrics that could lead to a rating upgrade include Total Debt to OPBDITA of less than 2.0 times on a sustained basis.

Negative factors – Pressure on Surin's ratings could arise in case of considerable decline in revenue and accrual generation and/or sizeable debt-funded capex, resulting in weakening of the debt protection metrics on a sustained basis. Pressure on the ratings could also arise from the weakening of the company's liquidity position on account of the elongation in its working capital metrics. Specific credit metrics that could lead to a rating downgrade include Total Debt to OPBDITA of more than 2.5 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for Auto Components |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | Standalone |

About the company

Surin is a mid-sized component supplier of body fabrication products used by CVs, tractors, CE and seating systems. The company has 11 plants, catering to the requirements of major OEMs. Surin's promoter, Mr. Surinder Choudhari has over four decades of experience in the automotive industry. Surin has a strong board composition, and its operations are managed by Mr. Aman Choudhari, who is adequately supported by a qualified and experienced management team.

Key financial indicators (audited)

| Surin – Standalone | FY2022 | FY2023 |
|--|--------|--------|
| Operating income | 754.7 | 984.6 |
| PAT | 6.3 | 26.5 |
| OPBDIT/OI | 4.4% | 5.4% |
| PAT/OI | 0.8% | 2.7% |
| Total outside liabilities/Tangible net worth (times) | 1.8 | 1.5 |
| Total debt/OPBDIT (times) | 3.1 | 2.1 |
| Interest coverage (times) | 4.1 | 5.3 |

Source: Company, ICRA Research; 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 | Type | Current rating (FY2024) | | Chronology of rating history for the past 3 years | | | |
|--------------------------------|------------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as of Dec 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | Mar 28, 2024 | Jan 31, 2023 | Dec 2, 2021 | Nov 20, 2020 |
| 1 Fund based – Working Capital | Long-term | 79.00 | - | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) |
| 2 Fund-based Term – Loan | Long-term | 47.00 | 47.00 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) |
| 3 Non-Fund based Limits | Short-term | 40.00 | - | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long-term – Fund-based – Working Capital | Simple |
| Long-term – Fund-based – Term Loan | Simple |
| Short-term – Non-Fund based 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 | Fund based – Working Capital | - | - | - | 79.00 | [ICRA]A (Stable) |
| NA | Fund-based Term – Loan | FY2016-FY2021 | ~8-9% | FY2022-FY2026 | 47.00 | [ICRA]A (Stable) |
| NA | Non-Fund based Limits | - | - | - | 40.00 | [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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