April 03, 2024

SEDEMAC Mechatronics Private Limited: [ICRA]BBB+(Stable)/[ICRA]A2 Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term- Fund based / Non Fund-based Working Capital Facilities	64.00	[ICRA]BBB+(Stable) / [ICRA]A2; assigned
Long Term- Fund based- Term Loans	45.44	[ICRA]BBB+(Stable); assigned
Long Term / Short Term: Unallocated Limits	16.14	[ICRA]BBB+(Stable) / [ICRA]A2; assigned
Total	125.58	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating assignment favourably factors in the well-established presence of SEDEMAC Mechatronics Private Limited (SEDEMAC or the company) in the niche segment of manufacturing powertrain engine controllers. ICRA notes on the strong management team, and founders with the promoters having a strong background with experience that spans over 15 years. This has also helped the company to attract marquee investors, with the entity having raised ~Rs. 112 crore since its inception. A strong product line-up focused on clients' requirements, both from automotive and non-automotive sectors, have resulted in a steady ramp up in the scale of operations over the years (CAGR of 19% over the last four years). ICRA notes on a strong product roadmap of the company, and its continued focus on research and product development. The revenue growth momentum is likely to be maintained over the near to medium term as the company onboards new clients across product categories and sectors. ICRA expects SEDEMAC to report a steady ramp up in its scale of operations for its principal product - which is used in starter kits for two-wheeler (2W) internal combustion engine (ICE) vehicles, over the medium term. Further, the company over the years has also been increasing its presence in other product verticals, such as genset segments and electric vehicle (EV) controllers, which is expected to provide further momentum to the expansion of revenue base, going forward. ICRA also notes the limited competitive intensity faced by SEDEMAC in the sensor-less technology, given the patented nature of its products in this category.

The rating strengths are, however, partially offset by the high customer concentration and product risk exhibited by SEDEMAC at present, with its largest customer having contributed to 79% of revenues in FY2023 (83% in 9M FY2024), exposing its operations vulnerable to OEM-specific slowdown risks. The company also derived ~53% of revenues in FY2023 through the principal product line. The company has undertaken an active effort to develop new products, as well as onboard other customers, from automotive as well as non-automotive sectors, thus mitigating the risk in the longer term.

The ratings are also constrained by a sizeable debt-funded capital expenditure in the past, with the capex plans lined up over the near term expected to keep the gross debt at elevated levels over the next 1-2 years. Such significant debt-funded capex outlay is expected to influence SEDEMAC's capital structure over the near to medium term. ICRA also notes the company's extensive dependence over imports of key raw materials (such as semiconductors and passive electronic components), rendering the operations vulnerable to the global supply chain related challenges. The company's well-established relations with the overseas suppliers, however, provide some comfort against the stated risk to an extent.

The Stable outlook on SEDEMAC's rating reflects ICRA's opinion that the company will continue to benefit from its established position as a tier 1 supplier of electronic controllers for both automotive and non-automotive applications. The company's plans to onboard new clients across product segments and industries are expected to reflect positively in steady revenue growth momentum over the medium term.

Key rating drivers and their description

Credit strengths

Established presence in the niche segment of powertrain engine controllers; strong promoter background – SEDEMAC has over 15 years of track record of being operational in the niche segment of electronic controllers used in powertrain engines as well as non-automotive applications such as gensets. The company benefits from the strong technological background of its qualified promoter team, which lends support to client retention as well as new client acquisition. This has also helped the company to attract marquee investors, with the entity raising ~ Rs. 112 crore through multiple rounds of funding since its inception.

Limited competitive scenario coupled with IP-backed product offerings to support margin profile – As SEDEMAC operates in the niche segment of electronic controllers used in the automotive powertrains, the entity faces limited competition in the domestic market, which in turn supports profitability through pricing structure. Moreover, SEDEMAC has developed IP-backed product offerings in the field of sensor-less technology, which has resulted in no material competition in this segment over the years, thus paving way for a steady revenue growth momentum, with the trend likely to continue over the near to medium term (with onboarding of new OEMs for its sensor-less device, and traction of other product lines for the passenger car, and power tools segments).

Increasing adaptability of key product offerings likely to maintain the robust revenue growth momentum – SEDEMAC has seen an increasing adaptability to its key product offerings in the recent past, which gels well with the revenue growth trajectory for the company. With several other products recently launched, and scheduled to be launched in the near term, incremental revenue contribution from these products should further aid in attaining higher revenue growth potential for SEDEMAC, for a longer time frame.

Comfortable financial profile, healthy gross margins and coverage indicators – SEDEMAC's capital structure is characterized by a comfortable gearing position which stood at 0.6 times as of March 2023 as well as December 2023, aided by a steady expansion of net-worth position over the years. ICRA also notes the healthy gross margins demonstrated by the entity on back of its pricing structure and expanding revenue base. The coverage indicators, backed by healthy profitability, remain fairly comfortable, as reflected by interest coverage ratio which stood at 5.6 times as of March 2023 (6.3 times as of December 2023). ICRA expects the company to report OPBITDA margins in the range of 13-15% in FY2025, while maintaining steady growth in its top line.

Credit challenges

High customer concentration risk; sizeable operational dependence on a single product – With its largest customer – a leading domestic 2W OEM, having contributed to ~79% of its revenues in FY2023 (~83% in 9M FY2024), SEDEMAC remains exposed to a high degree of customer concentration risk, wherein any operational challenges faced by key client could have a material impact on the business operations of the company. SEDEMAC's deep-rooted relations with its key clients over the years, however, provide some comfort against the said risk. In addition, ICRA also notes the sizeable operational dependence of the company on a single product (with this product having contributed 53% and 59% of revenues in FY2023 and 9M FY2024, respectively), making its operations vulnerable to any product-specific slowdown risks. The IP-backed nature of products in this product category, however, mitigates the said risk to an extent. In addition, ICRA notes on a strong product development pipeline, which should translate into revenues in the medium to longer term.

Sizeable debt-funded capital expenditure likely to influence capital structure over the near to medium term – With a sizeable debt-funded capex recently undertaken and lined up over the near term, SEDEMAC's capital structure is expected to remain influenced under the elevated debt level over the near to medium term. The company's capital expenditure over the last three years was ~Rs. 130 crore (of which ~Rs. 71 crore was for product development and software expenses which are capitalised and amortised every year). However, the said capex is being undertaken to accommodate company's aggressive expansion plans, and commensurate returns from this capex are thus likely to provide further comfort to the accruals position going forward.

Extensive dependence on imports for raw material procurement exposing the operations to the global supply chain related issues – Given the nature of industry it operates in, SEDEMAC shows an extensive dependence over imports for raw material procurement (74% of raw material was imported in FY2023), especially for semiconductors and passive electronic components), which exposes the company to the global supply chain related issues – any impact on the procurement channels could therefore affect the business operations to a large extent. The company's well-established relations with its overseas suppliers coupled with sufficient stocking of imported inventory, however, provide some comfort against the said risk.

Liquidity position: Adequate

SEDEMAC's liquidity position remains adequate, as reflected from a moderate buffer in the form of undrawn working capital lines (typically maintained at Rs. 5-10 crore) and moderate balance of cash and liquid investments which stood at Rs. 4.7 crore as of December 2023. Moreover, cash flow generation from operations, projected to remain fairly comfortable over the near to medium term, is expected to provide further comfort to the liquidity profile. Against this, the capex outlay for FY2025 remains ~Rs. 50-60 crore, while the debt repayment quantum for next 1-2 years stands at ~Rs. 15-20 crore per annum, which is likely to be met from steady accruals generation. Regular infusion of equity from promoters / investors has also extended material support to SEDEMAC's liquidity in the past, with further rounds of equity infusion likely to support the company's liquidity profile, going forward.

Rating sensitivities

Positive factors – The rating could be upgraded with a scale up in the revenues alongside an improvement in profitability resulting in an improvement to the liquidity profile of the company. In addition, a diversification in its product and customer industry profile on a sustained basis, would be key requirements.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company leading to deterioration in debt protection metrics. Further, any sizeable dividend payout or higher working capital requirement leading to an adverse impact on the liquidity position of the company can trigger a downward rating revision. Specific credit metrics that could lead to a downward rating pressure would be TD/OPBITDA above 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	For arriving at the ratings, ICRA has considered the standalone financials of SEDEMAC Mechatronics Private Limited.

About the company

Incorporated in 2007, SEDEMAC is an innovative controls company engaged in manufacturing of electronic components primarily powertrain controllers for automotive (catering majorly 2W and 3W OEMs), gensets and EVs. The company presently generates around 85% of its revenues from the domestic automotive sector, with the two-wheeler segment being the major contributor. It presently has an installed capacity of about 40,00,000 units per annum, and has two manufacturing plants - one in Chakan and the other one in Dhayari, Pune. The company's corporate office, and R&D centre are located at Baner, Pune. The company was by founded by technocrats - Mr. Shashikanth Suryanarayanan, Mr. Amit Dixit and Mr. Manish Sharma who are the alumni of Indian Institute of Technology, Mumbai. Apart from promoters and friends and relatives who control around 27% stake in the company, several investors including PE funds have around 73% stake in the company.

Key financial indicators

SEDEMAC	FY2022 Audited	FY2023 Audited	9M FY2024 Provisional
Operating Income (Rs. crore)	284.7	428.6	387.1
PAT (Rs. crore)	3.5	11.1	18.8
OPBDIT/OI (%)	11.1%	11.8%	13.3%
PAT/OI (%)	1.2%	2.6%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.3	1.4
Total Debt/OPBDIT (times)	2.9	1.6	1.3
Interest Coverage (times)	4.5	5.6	6.3

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

Source: SEDEMAC, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					April 3, 2024	-	-	-
1	Term Loan	Long- term	45.44	45.44	[ICRA]BBB+(Stable)	-	-	-
2	Working Capital Facilities	Long-term/ Short-term	64.00	41.40	[ICRA]BBB+(Stable)/[ICRA]A2	-	-	-
3	Unallocated	Long-term/ Short-term	16.14	-	[ICRA]BBB+(Stable)/[ICRA]A2	-	-	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Term Loans	Simple
Long Term / Short Term – Working Capital Facilities	Simple
Long Term / Short Term – Unallocated	Not Applicable

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	Term Loan – 1	FY2024	NA	FY2028	7.58	[ICRA]BBB+(Stable)
NA	Term Loan – 2	FY2021	NA	FY2027	15.80	[ICRA]BBB+(Stable)
NA	Term Loan – 3	FY2018	NA	FY2026	13.06	[ICRA]BBB+(Stable)
NA	Term Loan – 4	FY2022	NA	FY2029	9.00	[ICRA]BBB+(Stable)
NA	Working Capital Facilities	NA	NA	NA	64.00	[ICRA]BBB+(Stable)/ [ICRA]A2
NA	Unallocated Limits	NA	NA	NA	16.14	[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.

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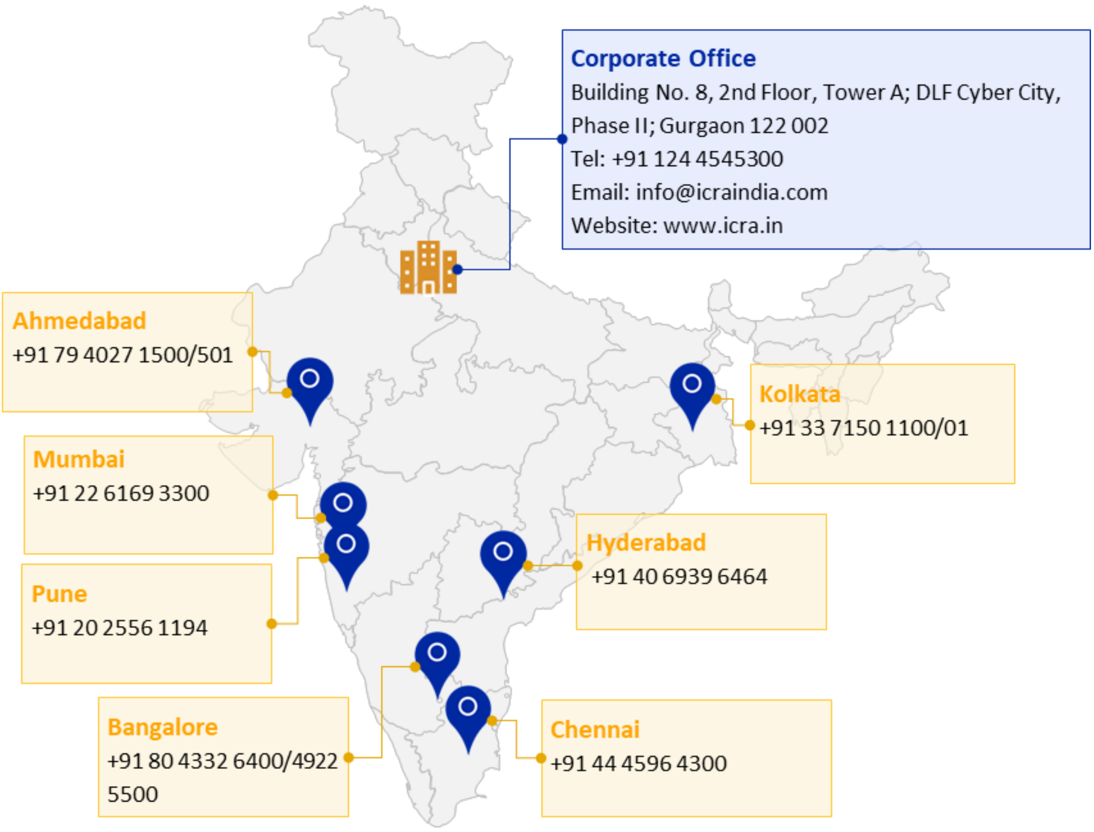

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