July 30, 2024

Sandfits Foundries 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 TL	20.80	22.88	[ICRA]A (Stable); reaffirmed
Long-term – Fund-based CC	30.00	30.00	[ICRA]A (Stable); reaffirmed
Short-term – Non-fund based	1.50	1.50	[ICRA]A2+; reaffirmed
Short-term – Fund-based	15.00	15.00	[ICRA]A2+; reaffirmed
Long-term / short-term – Unallocated	2.70	0.62	[ICRA]A (Stable)/ [ICRA]A2+; reaffirmed
Total	**70.00**	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Sandfits Foundries Private Limited's (SFPL) comfortable financial profile, characterised by healthy earnings and strong debt protection metrics, which are expected to sustain, going forward. While the company's revenues declined by 15% in FY2024 on account of low orders from one of its key clients owing to elevated levels of inventory held by the client, its margins improved by 51 bps on account of softened raw material costs. In FY2025, the company is expected to witness a low double-digit growth on the back of improved orders, realisations and new product and customer additions, while the operating margins are expected to sustain at the current levels. The ratings remain supported by the promoter's extensive experience in the foundry business and SFPL's healthy operational profile, characterised by its diverse presence across end-user industries like passenger vehicles (PV), medium and heavy commercial vehicles (M&HCV), tractors/farm, mining and construction equipment (MCE), textiles and engineering. The ratings also consider SFPL's reputed clientele and long relationships with its customers, which resulted in a low churn rate and repeat orders over the years.

The ratings, however, remain constrained by the vulnerability of its earnings to the cyclicality in end-user industries, especially commercial vehicles, and tractors. The ratings also factor in the limited pricing power with few OEMs, given the high competition the highly fragmented foundry industry and sensitivity of profit margins to the volatility in raw material prices.

The Stable outlook on the long-term rating of SFPL reflects the expected improvement in revenue, accruals, and debt protection metrics of the company, supported by favourable demand for its products from the end-user segments.

Key rating drivers and their description

Credit strengths

Strong operational profile with diversified presence across industries with a reputed clientele – SFPL's business risk profile is strong, supported by the promoter's vast experience and the company's long-standing presence in the castings industry, supplying components to diverse end-user industries, namely PVs (accounting for 26% of the revenues in FY2024), M&HCVs (21%), tractors (20%), MCEs (23%), textiles (4%) and engineering (1%), among others (5%). This insulates its earnings against any exogenous shocks or demand slowdown in a specific industry. The company witnessed a decline in revenues and volumes by 15% and 10%, respectively, in FY2024 on account of lower orders in the earthmover sector amid subdued demand and high inventory with one of its major customers. The demand estimates for FY2025 for most of the end-user segments are favourable and would accordingly support SFPL's revenues and earnings. SFPL also has a reputed client profile with whom it enjoys established relationships, resulting in repeat orders over the years.

Significant experience of promoters in the foundry industry – SFPL, incorporated in 1962, has a long track record of manufacturing grey iron and SG iron castings that find applications in diverse industries. At present, SFPL is managed by Mr. R. Saravanan, who has over three decades of experience in the castings business and is well supported by a qualified and experienced management team. The promoter's long-standing experience, supported by a strong management team, continue to support SFPL's sustenance of business with existing customers and new deal wins from both the domestic and export markets.

Financial profile characterised by healthy profit margins and strong debt metrics – SFPL's revenues declined by 15% YoY in FY2024 (provisional) on account of low orders from one of its key clients owing to elevated levels of inventory held by client although the margins improved to 15.1% in FY2024 from 14.6% in FY2023 on account of softened input prices, higher realisations and improved operational efficiencies (better yield, captive power generation from windmills and new solar power plant and better cost-control measures). SFPL's capitalisation and coverage indicators moderated marginally (owing to increased debt levels), yet remain strong with a gearing of 0.4 times, total debt/OPBITDA of 1.2 times as on March 31, 2024, along with an interest coverage of 15.7 times and DSCR of 1.9 times for FY2024. Despite the expected increase in debt to fund the capex, ICRA expects the debt coverage metrics to remain comfortable, going forward.

Credit challenges

Vulnerability of earnings to cyclicality in end-user industries – The company's revenues are vulnerable to the cyclicality of the end-user industries like M&HCV, tractor and earthmovers, wherein any fall in the offtake from its major customers may impact SFPL's revenue as seen in FY2024, where the company's revenues moderated owing to a decline in volumes in the earthmover and tractor sectors.

Susceptibility of margins to fluctuations in raw material costs and competitive pressure – SFPL's margins are susceptible to fluctuations in the prices of raw materials, primarily pig iron and scrap steel. Although the company has demonstrated the ability to pass on the rise in raw material costs, it is usually done with a lag, impacting profits temporarily due to price hikes. Further, the margins are affected by pricing pressure, resulting from intense competition in the fragmented domestic foundry industry.

Liquidity position: Adequate

SFPL's liquidity is adequate, with estimated retained cash flows of Rs. 40.0-50.0 crore in FY2025, along with adequate cash and bank balances and liquid investments of Rs. 28.6 crore as on March 31, 2024. In relation to these sources of cash, SFPL has capex plans of ~Rs. 65.0 crore in the near term (to be funded by Rs. 20.0 crore of long-term debt and the balance through internal accruals) and debt repayments of Rs. 14.4 crore in FY2025. Further, the company has unused working capital facilities of Rs. 16.4 crore as on March 31, 2024. Overall, ICRA expects SFPL to be able to meet its near-term commitments through internal as well as external sources of funds.

Rating sensitivities

Positive factors – An upward trigger in the ratings could arise from SFPL's ability to achieve healthy growth in revenue and earnings, on a sustained basis, while maintaining its debt capitalisation and coverage metrics.

Negative factors – Pressure on SFPL's ratings could arise if the debt levels rise with increase in working capital requirements, or on account of any large capex, resulting in deterioration of total debt/OPBITDA to over 2.0 times, on a sustained basis. Any sharp decline in the top line and earnings, on a sustained basis, could also exert pressure on the ratings.

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

Sandfits Foundries Private Limited, founded by Mr. A. V. Varadharajan, was established in 1962. It was converted into a private limited company in 1993. The company primarily manufactures grey iron and SG iron castings that find application in automotive (38%), tractors (20%), earthmoving equipment (26%), textiles (4%), and heavy engineering (2%) industries. The company is closely held by Mr. R. Saravanan and family at present. It operates with five units at Coimbatore, Tamil Nadu, with an installed production capacity of 51,000 MT per annum. The company also has captive windmill and solar power plant with a production capacity of 6.15 MW and 5 MW, respectively.

Key financial indicators (audited)

Sandfits Foundries Private Limited	FY2023	FY2024*
Operating income	452.8	383.5
PAT	39.9	30.2
OPBDIT/OI	14.6%	15.1%
PAT/OI	8.8%	7.9%
Total outside liabilities/Tangible net worth (times)	1.2	1.0
Total debt/OPBDIT (times)	0.8	1.2
Interest coverage (times)	17.5	15.7

*Source: Company, ICRA Research; * Provisional financials; 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	Amount rated (Rs. crore)	Current rating (FY2025) Date & rating in FY2025 Jul 30, 2024	Chronology of rating history for the past 3 years Date & rating in FY2024 Apr 10, 2023	Date & Rating in FY2023 Oct 31, 2022	Date & rating in FY2022 Jul 12, 2021
1	**Fund Based - TL**	Long-term	22.88	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	**Fund Based - CC**	Long-term	30	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
3	**Non-Fund Based**	Short Term	1.5	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	**Fund Based**	Short Term	15	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
5	**Unallocated**	Long-term/ Short Term	0.62	**[ICRA]A (Stable) / [ICRA]A2+**	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - fund based TL	Simple
Long Term - fund based - CC	Simple
Short Term - non fund Based	Very Simple
Short Term - fund based	Very 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	Mar 2020	7.89%	Sep 2025	0.85	[ICRA]A(Stable)
NA	**Term Loan**	May 2023	8.60%	May 2027	5.90	[ICRA]A(Stable)
NA	**Term Loan**	Apr 2024	8.60%	Mar 2029	16.13	[ICRA]A(Stable)
NA	**Cash Credit**	-	-	-	30.00	[ICRA]A(Stable)
NA	**Letter of Credit**	-	-	-	1.50	[ICRA]A2+
NA	**WCDL**	-	-	-	15.00	[ICRA]A2+
NA	**Long Term / Short Term – Unallocated**	NA	NA	NA	0.62	[ICRA]A(Stable)/[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 – 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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