July 31, 2024

Stumpp Schuele And Somappa Auto Suspension Systems Private Limited: Ratings 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 cash credit	12.00	12.00	[ICRA]BBB reaffirmed; Outlook revised to 'Negative' from 'Stable'
Short term - Non-fund based	13.00	13.00	[ICRA]A3+; reaffirmed
Long term – Term Loan	3.00	3.00	[ICRA]BBB reaffirmed; Outlook revised to 'Negative' from 'Stable'
Total	**28.00**	**28.00**	

**Instrument details are provided in Annexure-I*

This rating rationale is being published in accordance with the regulatory timelines. It may be noted that the rated entity has requested ICRA to review the ratings mentioned here in above. As a part of its Policy for Review of Ratings, ICRA is evaluating the request along with the additional information shared by the rated entity. If upon a review of the additional information, any other rating action is taken, it will be conveyed by way of publishing another rating rationale in the next two weeks. Else, the above rating action will continue to hold.

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Stumpp Schuele & Somappa Springs Private Limited (4SPL), Stumpp Schuele and Somappa Auto Suspension Systems Private Limited (5SPL) and MGM Springs Private Limited (MGMSPL), given the common promoters and the close operational and financial linkages among these entities. 4SPL, 5SPL and MGMSPL are hereby together referred to as the SSS Group ('the Group').

The revision in outlook on the long-term rating follows 4SPL's sizeable corporate guarantees of Rs. 325 crore to Group companies as on March 31, 2024 (vis-à-vis Rs. 121.8 crore as on March 31, 2023, and Rs. 17 crore as on March 31, 2022) and the risks/potential liabilities arising out of these guarantees issued. The latest corporate guarantee was issued for Rs. 150 crore loan sanctioned for SSS Realty & Co. (rated [ICRA] BB+(Stable)), which has an under-construction mixed-use real estate project. ICRA understands that while only Rs. 1 crore of the loan has been drawn so far, the remaining amount is likely to be availed in the current year. ICRA will continue to monitor the progress of this project, the likely cash flows from it and any incremental corporate guarantees from the SSS Group to this project or other group entities.

The ratings remain supported by the SSS Group being one of the leading players in domestic spring industry and the vast experience of its promoters. The presence across multiple categories of springs used in different part of a vehicle and across various auto sub-segments mitigates risks arising from reliance on a single segment/category of spring to a large extent. The Group's operating income improved by 16.3% to Rs. 821.2 crore in FY2024 (unaudited) compared to Rs. 706.3 crore in FY2023, driven by healthy growth in volumes. The compounded annual growth rate (CAGR) for the last four years stood at 16.4%, with revenues increasing to Rs. 821.2 crore in FY2024 (unaudited) from Rs. 447.8 crore in FY2020, supported by strong end-user demand and better realisations due to periodic upward revisions in product prices. The higher scale of operations, coupled with a more margin-accretive product mix and sustained cost optimisation measures, resulted in a YoY improvement in margins for the Group in FY2024. The SSS Group's operating margin improved by 130 bps YoY to 10.1% in FY2024, while its net margin improved by 110 bps to 4.2% for the same period. The Group's accruals improved to Rs. 51.7 crore in FY2024 (unaudited) from Rs. 14.6 crore in FY2020. However, it has moderate coverage metrics, and its revenues and earnings exposed are to the inherent cyclicality in automotive demand and fluctuations in raw material prices. The domestic spring industry is highly competitive, given the moderate value addition and presence of multiple players. While competitive intensity is expected to remain high, the Group's established presence and diversified product portfolio within the spring business mitigate the risk to an extent.

Key rating drivers and their description

Credit strengths

Established presence in the Indian spring industry – The SSS Group is one of the leading players in the domestic spring industry, benefitting from the vast experience of its promoters and technological support from globally renowned players. The Group manufactures and sells various types of springs including helical springs, valve springs, leaf springs, tension springs, wire forms, flat springs, spring rings, spring washers, etc and stabilisation bars used in two-wheelers (2W), passenger vehicles (PV), commercial vehicles (CV), tractors, aircraft, railways, stationery engines, communication equipment, electrical and electronics, as well as the defence industry. The Group's presence across multiple categories of springs and various auto sub-segments mitigates the risks arising from a decline in any single segment/category of spring to a large extent.

Reputed client profile; proximity of plants to OEMs provides competitive advantage – The Group has a reputable client base of OEMs and tier-1 auto component suppliers. Some major customers include Maruti Suzuki India Limited, Hero MotoCorp Limited, Honda Cars India Limited, TVS Motor Company Limited, Endurance Technologies Limited, Brakes India Private Limited, Tata Cummins Private Limited and others. The Group is the single source for several products/models for these OEMs, and its manufacturing plants are strategically located across multiple locations in India, in proximity to most of its customers. In contrast, its close competitors have limited presence in terms of geographical footprint and capacity. This advantage has supported the Group to maintain its position as one of the largest spring manufacturers in India.

Healthy revenue growth in the last few years – The Group's operating income improved by 16.3% to Rs. 821.2 crore in FY2024 (unaudited) compared to Rs. 706.3 crore in FY2023, driven by healthy growth in volumes. The compounded annual growth rate (CAGR) for the last four years stood at 16.4%, with revenues increasing to Rs. 821.2 crore in FY2024 (unaudited) from Rs. 447.8 crore in FY2020, supported by strong end-user demand and better realisations due to periodic upward revisions in product prices. The higher scale of operations, coupled with a more margin-accretive product mix and sustained cost optimisation measures, resulted in a YoY improvement in margins for the Group in FY2024. The SSS Group's operating margin improved by 130 bps YoY to 10.1% in FY2024, while its net margin improved by 110 bps to 4.2% for the same period. The Group's accruals improved to Rs. 51.7 crore in FY2024 (unaudited) from Rs. 14.6 crore in FY2020.

Credit challenges

Moderate coverage metrics; risk stemming from corporate guarantees extended to Group companies – The Group's coverage indicators remain moderate net debt/OPBITDA of 2.1 times as on March 31, 2024, and interest coverage at 3.7 times in FY2024, not accounting for corporate guarantees extended to group entities. The SSS Group extended sizeable corporate guarantees of Rs. 325 crore to Group companies as on March 31, 2024 (vis-à-vis Rs. 121.8 crore as on March 31, 2023, and Rs. 17 crore as on March 31, 2022) and the risks/potential liabilities arising out of these guarantees issued. The latest corporate guarantee was issued for Rs. 150 crore loan sanctioned for SSS Realty & Co. (rated [ICRA] BB+(Stable)), which has an under-construction mixed-use real estate project. ICRA understands that while only Rs. 1 crore of the loan has been drawn so far, the remaining amount is likely to be availed in the current year. ICRA will continue to monitor the progress of this project, the likely cash flows from it and any incremental corporate guarantees from the SSS Group to this project or other group entities.

Revenue and earnings vulnerable to the cyclicality in automotive demand and volatility in input prices - The Group derives over 90% of its revenues from the automotive segment, with the bulk of its revenues coming from the domestic OEM segment. Since the replacement share of revenues is minimal, any slowdown or cyclicality in auto demand would impact the Group's revenues and earnings, as observed during FY2021 and FY2022. The earnings also remain vulnerable to any sharp volatility in raw material prices. While the company has pass-through clauses with its clients, its margin contracted in FY2022 due to the sharp and rapid increase in raw material prices, besides the spike in other operating costs. However, with the softening of RM prices and higher scale of operations leading to better fixed cost absorption, the margins improved in FY2023 and FY2024.

High competitive intensity - The domestic spring industry is highly competitive owing to the moderate value addition and the presence of multiple players. While the competitive intensity is expected to remain high, the Group's established presence and diversified product portfolio within the spring business mitigate the risk to an extent.

Liquidity position: Adequate

The Group's liquidity position is adequate, with healthy anticipated cash flows from operations, unencumbered cash and cash equivalents of Rs. 14.7 crore as on March 31, 2024, and an unutilised buffer of Rs. 9.5 crore in its working capital facilities. The average utilisation in its working capital facilities was 80.6% of the sanctioned limits and 65.6% of the drawing power for the period between April 2023 and March 2024. The Group also has undrawn term loan limits of Rs. 14.7 crore as on March 31, 2024. Additionally, it is expected to generate healthy cash accruals going forward. However, the Group has principal repayment obligations of Rs. 20 crore in FY2025, Rs. 22 crore in FY2026 and Rs. 17 crore in FY2027 against the sanctioned and existing total term loans. Further, it has total capex plans of ~Rs. 85 crore for the period FY2025 to FY2027. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of cash and still have an adequate cash surplus.

Rating sensitivities

Positive factors – ICRA could revise the outlook to stable with adequate construction progress and leasing tie-up for the entity for which corporate guarantee has been extended and if the SSS Group (4SPL, 5SPL and MGMSPL) demonstrates substantial growth in revenue and profitability along with significant improvement in debt metrics and liquidity profile on a sustained basis.

Negative factors – Negative pressure on the ratings could arise from sharp deterioration in debt protection metrics on a sustained basis on the back of weak earnings or large investments in other group entities. Any sizeable incremental corporate guarantees extended to group entities could be a trigger for negative rating action.

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 taken a consolidated view of 4SPL, 5SPL and MGMSPL, given their close operational and financial linkages and common promoters.

About the company

The Stumpp Schuele and Somappa Group manufactures and sells 4,000 types of metallic springs and stabilisation bars across automotive and non-automotive applications. Within the automotive segment, the company has presence across two-wheelers (2W), passenger vehicles (PV), commercial vehicles (CV), tractors etc., while in the non-automotive space, it has presence in aircraft, railways, stationery engines, communication equipment, electrical and electronics, as well as the defence industry .The entities, 4SPL and MGMSPL, manufacture metallic springs of all varieties, including helical springs, valve springs, leaf springs, tension springs, wire forms, flat springs, spring rings, and spring washers for various industries. 5SPL's product portfolio is divided into three segments—cold coils, hot coils and stabilisation bars. The firms, 4SPL, 5SPL and MGMSPL, cumulatively have an established customer base, comprising Maruti Suzuki India Limited, Hero MotoCorp Limited, Honda Cars India Limited, TVS Motor Company Limited, Bosch Limited, Endurance Technologies Limited, Brakes India Private Limited and Tata Cummins Private Limited.

Mr. Somappa, the promoter of the Group, along with his two German partners, Stumpp and Schuele, established the business in 1960 known as Stumpp Schuele & Somappa Private Limited (3SPL). The firm, 3SPL, was the first spring manufacturing unit in India. After the dilution of the Foreign Exchange Regulation Act (FERA) in the 1970s, the shareholding of Mr. Stumpp and Mr. Schuele was reduced to 26% in the company. Later, Mr. Stumpp and Mr. Schuele sold their shares to M/s Kern Leibers GmbH, Germany, which was subsequently acquired by Mr. M.R. Ramesh in 2007. At present, Mr. Ramesh and his family own the Group, and there are no linkages to the erstwhile German promoters. At present, the Group is managed by the third generation of Mr. M. R. Ramesh's family, with Mr. M. R. Satish serving as the current Chairman of the Group and leading the business.

Key financial indicators

Consolidated	FY2023	FY2024 (Unaudited)
Operating income	706.3	821.2
PAT	21.9	34.3
OPBDIT/OI	8.7%	10.1%
PAT/OI	3.1%	4.2%
Total outside liabilities/Tangible net worth (times)	2.3	2.0
Total debt/OPBDIT (times)	2.5	2.2
Interest coverage (times)	3.0	3.7

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; total debt includes lease liabilities

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 31, 2024	Apr 18, 2023	Sept 30, 2022	Jun 22, 2021
1	**Cash Credit**	Long term	12.00	**[ICRA]BBB (Negative)**	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	**Non-fund based**	Short term	13.00	**[ICRA]A3+**	[ICRA]A3+	[ICRA]A3	[ICRA]A3
3	**Interchangeable**	Shot term	-	**-**	-	-	[ICRA]A3
4	**Term Loan**	Long term	3.00	**[ICRA]BBB (Negative)**	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based cash credit	Simple
Short term - non-fund based	Very Simple

Long term – Term Loan	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	**Long term - Fund based cash credit**	NA	10-12%	NA	12.00	[ICRA]BBB (Negative)
NA	**Short term - Non-fund based**	NA	NA	NA	13.00	[ICRA]A3+
NA	**Long term – Term Loan**	October 2018	12.50%	FY2025	3.00	[ICRA]BBB (Negative)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Stumpp Schuele and Somappa Springs Private Limited	NA	Consolidated
Stumpp Schuele and Somappa Auto Suspension Systems Private Limited	NA	Consolidated
M.G.M Springs Private Limited (Group company with common promoters)	NA	Consolidated

Note: *ICRA has taken a consolidated view of the above-mentioned companies while assigning the ratings.*

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