September 24, 2024

STEER Engineering Private Limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Cash credit	50.00	50.00	[ICRA]BBB+ (Stable); reaffirmed; outlook revised to Stable from Negative
Long term - Fund based – Term loan	22.83	16.50	[ICRA]BBB+ (Stable); reaffirmed; outlook revised to Stable from Negative
Short term – Non-fund based limit	12.00	12.50	[ICRA]A2; reaffirmed
Short term – Interchangeable	(20.00)	(34.00)	[ICRA]A2; reaffirmed
Total	**84.83**	**79.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Stable from Negative reflects the improvement in the credit profile of STEER Engineering Private Limited (SEPL or STEER) owing to its improved scale and profitability in FY2024. The revenues grew 33% (YoY) in FY2024 on the back of increased order intake and execution. Further, the operating margins rose to 7.5% in FY2024 supported by an improved scale.

The ratings continue to derive comfort from the company's experienced professional management with strong technical capabilities and a long track record in manufacturing extruder elements and machines. The ratings also consider a healthy order book position of Rs. 170 crore as of August 2024-end and an expected revenue growth backed by the company's diversification into new segments, such as extruder machines for plastic recycling, biomass sector, food and pharmaceutical industries etc. The ratings also continue to draw comfort from SEPL's comfortable capital structure and coverage metrics.

The ratings, however, are constrained by the Group's moderate scale of operations, the inherent cyclicality in the capital goods sector and an intensely competitive industry, marked by the presence of well-established multinational players. The company's profits are susceptible to the volatility in raw material prices, given the fixed price nature of contracts. However, the company's policy of putting a mark-up on the raw material procurement price while quoting the customer and natural hedging (with both forex receivables and payables in place) protect the profitability to an extent.

Key rating drivers and their description

Credit strengths

Experienced professional management, long track record in manufacturing of twin screw extruder & extruder parts and diversification into new segments - STEER was established in 1993 by a technocrat, Dr. Babu Padmanabhan. It began as a manufacturer of extruder elements for co-rotating twin screw compounding extruders for the polymer industry. The company began manufacturing its own brand of extruder machines in 2003 and over the years, it has developed a wide range of machines capable of handling various applications. The company's experienced management and its diversification into new segments - extruder machines for plastic recycling, biomass sector, food and pharmaceutical industries, etc - would drive revenue growth in the near to medium term. Further, in the near term, the company would launch wood substitute under the brand 'UnWood' made from plastic recycling which is expected to contribute towards environmental sustainability and reduce deforestation. The product quality of STEER is reflected in its ability to penetrate the highly competitive global markets.

Comfortable order book position; diversified customer base and geographical presence - The company has an outstanding orderbook position of ~Rs. 170 crore as of August 2024 which provides near-term revenue visibility. Apart from domestic operations, STEER has overseas subsidiaries in the US, China and Japan, besides agents across Europe, Korea, West Asia etc. to support its export sales. At a consolidated level, export sales have contributed 60-70% to the total revenue over the last three years. The company's major export markets are the US, Japan and Europe. To diversify its revenue base, STEER is focused on widening its geographical footprint and increasing its exports.

Comfortable capital structure and coverage metrics - The company's capital structure is comfortable, marked by a gearing of 0.1 times as on March 31, 2024 (consolidated financials). With an expected improvement in scale and margins, the capital structure is likely to remain comfortable in the absence of any major debt-funded capital expenditure over the medium term. The coverage metrics are also adequate with interest coverage of 5.6 times and NCA/total debt of 108% in FY2024. The coverage metrics are expected to remain healthy in the near to medium term.

Credit challenges

Moderate scale of operations - STEER's scale of operations remains moderate, marked by a consolidated revenue of ~Rs. 257 crore in FY2024. The moderate scale of operations exposes the company to the risk of business downturn and its ability to absorb temporary disruption and leverage fixed costs. The risk is accentuated by STEER's substantial dependence on the overseas markets, rendering it vulnerable to the global macro environment.

Inherent cyclicality in capital goods sector and intensely competitive industry - As the company's performance is dependent on the growth of its end-user industries, shifts in economic cycles increase its susceptibility to the cyclicality in demand growth and significantly impact the revenues and cash flows. Moreover, STEER faces intense competition in the export market from other well-established global players.

Vulnerability to foreign currency fluctuation risk - The company's profitability is susceptible to forex risks to the extent of the unhedged exposure, although the risk is largely covered by natural hedging with both forex receivables and payables in place. The risk is also reduced by foreign currency loans and by managing the currency flow from its subsidiaries to a favourable exchange rate.

Liquidity position: Adequate

STEER's liquidity remains adequate, marked by unutilised fund-based facilities of Rs. 50 crore as of June 2024, against scheduled debt repayment of ~Rs. 4.00 crore in FY2025. The average utilisation of the working capital limits stood at ~22% in the last 12 months ended June 2024 with no working capital limits being utilised since the end of February 2024 on the back of increased cash flows since Q4 FY2024. Going forward, this utilisation is expected to remain low. The company has capex plans of Rs. 7-8 crore for FY2025 which are expected to be funded by undrawn term loans and internal accruals.

Rating sensitivities

Positive factors – ICRA can upgrade the ratings if the company demonstrates a continuous growth in its earnings on the back of healthy order flows while maintaining a comfortable capital structure and an adequate liquidity position.

Negative factors - Pressure on the ratings could arise if there is a substantial decline in STEER's scale of operations and profitability. Additionally, the ratings may be downgraded if STEER undertakes any large debt-funded capex, or if a stretch in the working capital cycle adversely impacts its liquidity profile and other key credit metrics (interest coverage less than 3 times on a sustained basis).

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of STEER Engineering Private Limited, its subsidiaries (full consolidation) and associate concerns (equity method). The list of the entities is given in Annexure-II

About the company

STEER, established in 1993, designs and manufactures co-rotating twin screw extruders, extruder processing zone elements and peripherals for the polymer industry. The company is promoted by first-generation entrepreneur, Dr. Babu Padmanabhan, who is the Managing Director. It has manufacturing units in Bengaluru and a foundry in Coimbatore. STEER has wholly-owned subsidiaries — STEER Japan Corporation (SJC), STEER America Inc. (SAI) and STEER China Global (SCG) — to carry out sales and marketing activities in the respective regions. STEER had demerged its pharma business, which has been transferred to STEERLIFE India Private Limited (76%-owned subsidiary of STEER Engineering), with an appointed date of April 1, 2016.

Key financial indicators (audited)

	Standalone		Consolidated	
SEPL	**FY2023**	**FY2024**	**FY2023**	**FY2024**
Operating income	202.2	225.1	193.4	256.6
OPBITDA	9.7	16.2	-0.1	19.2
PAT	2.0	6.8	-12.1	5.9
OPBITDA/OI	4.8%	7.2%	-0.1%	7.5%
PAT/OI	1.0%	3.0%	-6.3%	2.3%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	1.6	1.4
Total debt/ OPBDIT (times)	3.2	0.5	-272.6	0.7
Interest coverage (times)	3.7	7.5	-0.04	5.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Chronology of rating history for the past 3 years							
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	50.00	Sep 24, 2024	[ICRA]BBB+ (Stable)	Oct 09, 2023	[ICRA]BBB+ (Negative)	Sep 27, 2022	[ICRA]BBB+ (Stable)	Aug 10, 2021	[ICRA]BBB+ (Stable)
Term loans	Long term	16.50	Sep 24, 2024	[ICRA]BBB+ (Stable)	Oct 09, 2023	[ICRA]BBB+ (Negative)	Sep 27, 2022	[ICRA]BBB+ (Stable)	Aug 10, 2021	[ICRA]BBB+ (Stable)
Non-fund based facilities	Short term	12.50	Sep 24, 2024	[ICRA]A2	Oct 09, 2023	[ICRA]A2	Sep 27, 2022	[ICRA]A2	Aug 10, 2021	[ICRA]A2
Interchangeable limits	Short term	(34.00)	Sep 24, 2024	[ICRA]A2	Oct 09, 2023	[ICRA]A2	Sep 27, 2022	[ICRA]A2	Aug 10, 2021	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loans	Simple
Non-fund based facilities	Very simple
Interchangeable 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	Cash credit	NA	NA	NA	50.00	[ICRA]BBB+ (Stable)
NA	ECLGS – TL (Axis)	Oct 29, 2020	NA	Aug 31, 2024	0.60	[ICRA]BBB+ (Stable)
NA	TL - 1 (Axis)	Feb 28, 2023	NA	Oct 31, 2026	2.60	[ICRA]BBB+ (Stable)
NA	TL - 2 (Axis)	Jan 17, 2024	NA	Dec 16, 2029	9.40	[ICRA]BBB+ (Stable)
NA	TL – 1 (Bajaj)	May 26, 2022	NA	May 05, 2026	1.00	[ICRA]BBB+ (Stable)
NA	TL – 1 (Bajaj)	May 26, 2022	NA	Oct 05, 2026	1.90	[ICRA]BBB+ (Stable)
NA	Term Loan	-	NA	-	1.00	[ICRA]BBB+ (Stable)
NA	Non-fund-based facilities	NA	NA	NA	12.50	[ICRA]A2
NA	Interchangeable limits	NA	NA	NA	(34.00)	[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

Company Name	STEER's Ownership	Consolidation Approach
STEER America Incorporation	100.00%	Full Consolidation
STEER Japan Corporation	100.00%	Full Consolidation
STEER China (Global) Limited	100.00%	Full Consolidation
STEERLife India Private Limited	76.22%	Full Consolidation
STEER Information Technologies Private Limited	44.75%	Equity Method
Phitons Bioengineering Private Limited	30.00%	Equity Method

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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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