

October 04, 2024

SFS Group India Private Limited (erstwhile Indo Schottle Auto Parts Private Limited): Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term – Fund-based/non-fund-based facilities	23.00	33.50	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed /assigned for enhanced limits
Total	23.00	33.50	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings of SFS Group India Private Limited (erstwhile Indo Schottle Auto Parts Private Limited) (SFS or company) factors in the steady business risk profile of SFS over the years, demonstrated by a sustained revenue growth momentum (CAGR of 18% over the last three years) and healthy operating profitability of 24-25% reported in CY2023 and 8M CY2024, with expectations of this to continue, going forward. The company reported 11% YoY revenue growth to Rs. 398.9 crore in CY2023, aided by steady volume offtake in the domestic as well as export markets. It has continued this momentum in the current fiscal (CY2024), with revenues of Rs. 301.7 crore reported in 8M CY2024. With its plans for expansion into additional product segments such as micro-fasteners for the electronics sector, the revenue growth and diversification can gain further pace over the near to medium term. SFS has a healthy liquidity profile, characterised by ample cash and liquid investments as well as unutilised working capital lines. Owing to its healthy accrual generation and operational/technical support extended by Group companies, SFS's dependence on external financing has historically remained low, leading to robust leverage and coverage indicators with nil gearing as of December 31, 2023, and Total Debt/OPBITDA at 0.1 times in CY2023.

The ratings continue to factor in SFS' diversified business profile, spanning geographies and automotive sectors. The presence of reputed clients in the domestic as well as overseas markets provides sufficient revenue visibility and supports its growth prospects. ICRA also notes the dominant market share of SFS in the domestic valve collets and rocker arm screw market, although the overall market size remains limited. The company continues to enjoy strong support from the SFS Group (its parent group), in terms of technical knowledge and access to European customers. SFS has also ventured into electronic micro-fastener manufacturing (a segment where its parent entity is already present), which is expected to provide the company with segmental diversification while augmenting its revenue growth prospects. A timely and sustained ramp-up in the operations of the electronics division while maintaining current healthy profitability levels, remains a monitorable.

The ratings, however, remain constrained by the moderate scale of operations, although the ongoing client addition and sectoral diversification are expected to support future revenue prospects. In line with the capital-intensive nature of the industry it operates in, SFS continues to demonstrate a low asset turnover (with operating income/gross block in the range of 70-80%), and accordingly, the capacity expansion it undertakes takes some time to stabilise. The company continues to invest in capacity expansion, with capex of Rs. 70-80 crore planned for CY2024, although the same is expected to be funded largely from internal accruals. While SFS has large-scale expansion plans of Rs. 250-300 crore, which will be done over a period of 2-3 years, the expansion will primarily be funded by debt. ICRA does note that the capacity expansion will help the company scale-up in the micro-fasteners products where it has a significant technological advantage in the domestic market. The debt-funded capex is likely to increase the leverage in the near to medium term; however, the strong cash flow generation of existing business would aid in the coverage metrics. The timely execution and funding mix for this project, along with generation of commensurate returns from the same, remain key credit monitorables. The company faces the impending risk of electrification

in the automotive industry, owing to its presence in components for engines and their peripheral systems. The capacity expansion plan to diversify into the non-automotive space augurs well to mitigate against the electrification risk.

The Stable outlook on the long-term rating reflects ICRA's expectations that SFS will continue to benefit from its established track record, technological support and financial flexibility as part of the SFS Group. The established relationships with its key clientele are expected to provide it with sufficient revenue visibility over the near to medium term.

Key rating drivers and their description

Credit strengths

Diversified presence across geographies and automotive businesses along with reputed client base – SFS primarily manufactures high-precision machined components for engines, turbo chargers, fuel systems and hydraulics for the automotive industry, with presence across multiple automotive sub-segments such as passenger vehicles, commercial vehicles and off-highway vehicles. It has also recently diversified into micro-fastener manufacturing for the electronics business, which augurs well for improving segmental diversification, going forward. Further, the company is diversified across geographies like India, USA and Europe. SFS also benefits from an established and reputed client base, supplying to entities with strong credit profiles, leading to low counterparty risks.

Technological support from SFS Group – SFS Group AG is a Swiss manufacturer and supplier of precision cold-formed components, special fasteners and mechanical fastening elements. With its presence in a similar business sector, SFS benefits from the SFS Group's technical know-how and access to European customers. It enjoys technological support from the SFS Group, especially in the cold forming technology. As of August 31, 2024, SFS Intec Holding AG held a 99.74% stake in the company, with SFS planned to become a wholly-owned subsidiary of the SFS Group in the near term.

Dominant share in domestic valve collets and rocker arm screw market – SFS commands a dominant market share in the domestic valve collets and rocker arm screw market. Although the overall market size in this segment remains limited, the company benefits from its reputed clientele and healthy wallet share with its key clients. Aided by robust market presence and significant wallet share with key customers, the company enjoys premium pricing for its product offerings.

Healthy operating profitability and comfortable coverage metrics – In the last three years, the SFS Group had a healthy ramp-up in revenues at a CAGR of 18%, in addition to the operating profitability remaining healthy with OPBITDA margins of 24.5% in CY2023 (24.0% in 8M CY2024). Due to SFS's conservative capital structure and healthy accruals, the overall coverage indicators remained comfortable with Total Debt/OPBDITA of 0.1 times as of December 31, 2023 (as well as August 31, 2024), and interest cover of 121.5 times in CY2023 (118.5 times in 8M CY2024). The liquidity position is also comfortable with cash and liquid investments, coupled with buffer from undrawn bank lines at ~Rs. 50 crore as of August 31, 2024. While sizeable debt-funded capex lined up over the medium term is likely to have a bearing on SFS's capital structure and coverage metrics, comfort is drawn from the robust net worth position and healthy accruals generation demonstrated by the company over the years, with expectations of the same to continue, going forward.

Credit challenges

Sizeable capex over medium term, commensurate returns from the same remains key monitorable – SFS plans to invest in sizeable capex of Rs. 250-300 crore over a period of three years, mainly towards capacity expansion of the micro-fasteners for the electronics business and modernisation drives, in addition to the routine capex towards the automotive division. The funding for the capex to be undertaken in the current fiscal is expected to be primarily met through internal accruals, without impacting the capital structure. However, the same over the medium to long term (primarily for the greenfield project) is likely to be funded primarily through bank borrowings. Overall, the company's ability to realise timely and commensurate returns from the capex undertaken remains a key monitorable.

Moderate scale of operations; exposed to inherent cyclicity in automotive industry – SFS's scale of operations remains moderate compared to other rated entities in a similar rating category in the auto component sector. However, the company's

presence in a niche business segment with relatively high entry barriers (because of capital intensity and long validation cycle) provides some comfort. While the company's revenues are currently susceptible to the inherent cyclicity associated with the automotive industry, its plans to venture into the electronics segment are expected to help mitigate this to some extent over the medium term.

Low asset turnover given the capital-intensive nature of business – SFS has historically reported a low asset turnover, with operating income/gross block in the range of 70-80%, reflective of the capital-intensive nature of the industry it operates in. The capacity expansion undertaken for the automotive division therefore takes to stabilise. Nevertheless, comfort is drawn from the high entry barriers in the industry that the company operates in, leading to healthy profitability over the years. ICRA does note that despite the low asset turnover, the return on capital employed (ROCE) was healthy at 22.7% in CY2023 (23.1% in 8M CY2024), led by healthy operating profitability.

Impending risk of electrification in automotive industry – With many products from its present portfolio used in internal combustion engines (ICE) and their peripheral systems, SFS remains vulnerable to the risk of electrification in the automotive industry. With the pace of electrification gradually gaining momentum in recent years, SFS's ability to de-risk its business model against electrification risks remains a key credit monitorable. SFS plans to enhance its focus on powertrain-agnostic components (such as the safety parts used in automotives), which, coupled with sectoral diversification into non-automotive segments through micro-fastener manufacturing for electronics business, is expected to help mitigate the risk of electrification going forward. Further, the company has been increasing its presence in the safety parts used in automobiles. SFS's current revenues from the automotive sector is 85-90%, but with the expansion of the micro-fasteners for the electronics business, the reliance on the automotive sector is expected to decline over the next five years.

Liquidity position: Adequate

SFS's liquidity profile is adequate, supported by its cash and liquid investments, and undrawn working capital facilities aggregating to around Rs. 50 crore as of August 31, 2024. Further, the company is expected to generate healthy cash flows of Rs. 70-80 crore per annum, which, coupled with its existing liquidity position, should partly meet the funding requirement of planned capex over the medium term (Rs. 70-80 crore capex expected in CY2024). While the sizeable debt-funded capex lined up over the next 2-3 years is likely to result in a significant addition in the long-term debt over the medium term, healthy accrual position on account of steady operational performance is expected to comfortably meet debt repayment obligations, going forward.

Rating sensitivities

Positive factors – SFS' ratings can improve with further strengthening of its business profile on the back of a significant and sustained scale-up in operations, while maintaining healthy profitability indicators and credit metrics. A sustained improvement in the liquidity profile would also be a rating positive.

Negative factors – Pressure on SFS' ratings could arise in the event of a significant and sustained decline in the scale of operations, coupled with deterioration in profitability, coverage indicators or liquidity position on a sustained basis. Specific credit metric for a downgrade is TD/OPBIDTA above 1.8 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	The ratings are based on the standalone financial statements of SFS.

About the company

SFS Group India Private Limited (erstwhile Indo Schöttle Auto Parts Private Limited) is a subsidiary of the Switzerland-based SFS Group AG, which develops and manufactures mechanical fastening systems and precision-formed components. SFS was incorporated in 1985 by first-generation entrepreneurs, Mr. Vijay. B. Pusalkar and Mr. Wolfgang Schöttle. In April 2012, the SFS Group acquired a 45.00% stake in the company, which subsequently increased to 99.74% as of December 2019. At present, the SFS Group is increasing its stake in SFS to 100% to make SFS a wholly-owned subsidiary in the near term. SFS's customer base includes almost all major OEMs in the Indian automotive sector as well as other leading tier-I suppliers. Export constitutes a sizeable share of its overall revenues, with the company providing precision components for fuel injection pumps and turbochargers to reputed auto component suppliers in the engine and transmission segment. The company has also forayed into manufacturing of electronic micro-fasteners as part of its diversification strategy.

Key financial indicators

SFS - Standalone	CY2022 Audited	CY2023 Audited	8M CY2024 Provisional
Operating income (Rs. crore)	360.6	398.9	301.7
PAT (Rs. crore)	39.2	51.2	46.3
OPBDIT/OI (%)	21.1%	24.5%	24.0%
PAT/OI (%)	10.9%	12.8%	15.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2	0.2
Total Debt/OPBDIT (times)	0.1	0.1	0.1
Interest Coverage (times)	182.2	121.5	118.5

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

Source: SFS, 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)	Date & Rating In	Date & Rating In FY2024	Date and rating in FY2023	Date and rating in FY2022
				Oct 4, 2024	Aug 17, 2023	Jul 28, 2022	Jun 23, 2021
1	Fund based / Non-fund based facilities	Long-term / short term	33.50	[ICRA]A+(Stable) / [ICRA]A1	[ICRA]A+(Stable) / [ICRA]A1	[ICRA]A(Stable) / [ICRA]A1	[ICRA]A(Stable) / [ICRA]A1

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/short-term – Fund-based/non-fund-based facilities	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term/short-term – Fund-based/non-fund-based facilities	NA	NA	NA	33.50	[ICRA]A+(Stable)/ [ICRA]A1

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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