

October 29, 2024

Sigma Corporation India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities - Export packing credit	40.00	40.00	[ICRA]A2+; reaffirmed
Non-fund based facilities	2.50	2.50	[ICRA]A2+; reaffirmed
Fund Based Facilities-Term loan	3.21	3.21	[ICRA]BBB+(Stable); reaffirmed
Unallocated: Long-term/Short term	0.79	0.79	[ICRA]BBB+(Stable)/ [CRA]A2+; reaffirmed
Total	46.50	46.50	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of Sigma Corporation India Limited (SCIL) and its subsidiary Sigma Moulds and Stampings Private Limited (SMS), collectively referred to as the Group, while assigning the ratings, given the common management and strong financial linkages between the entities.

The ratings reaffirmation factors in ICRA's opinion that the Group will maintain its operating and financial profiles in the near to medium term. The revenues of the Group, at a consolidated level, increased by 9.5% in FY2024 to Rs. 359 crore from Rs. 328 crore in FY2023. The revenue grew on the back of stable demand for its products in the replacement market. While the revenues increased, the margins for SCIL moderated owing to increased freight cost amid the Red Sea crisis, which has now eased to a certain extent. On the contrary to the overall consolidated revenue growth, the revenue growth in SMS remained largely subdued owing to the ongoing Russia-Ukraine war, which was further exacerbated by the Red Sea crisis. SMS is developing and testing products for Original Equipment Manufacturers (OEMs), but the revenue generation and scale-up of the same will take time. Going forward, the Group is expected to benefit from its efforts to shift towards higher-margin products and fresh geographies in the export-oriented markets. The Group's significant presence in the export aftermarket, particularly in the US, is likely to support its business prospects along with an expected recovery in the European region. Further, its focus on improving efficiencies, reducing wastage and upgrading machines is expected to drive growth in operating cash accruals.

The ratings continue to factor in the Group's established presence in the automotive industry in the international replacement market, supported by an experienced management and its in-house capabilities to design and manufacture components. Additionally, the ratings factor in ICRA's expectations that the Group's liquidity profile will continue to be strong, backed by its significant investment book. ICRA also notes that the Group's net worth has strengthened on account of the monetisation of investments in the past. The strong net worth and limited indebtedness have led to a strong capital structure.

The ratings continue to be constrained by the Group's moderate scale, its working capital-intensive business and the relatively subdued returns from its core business operations. ICRA factors in the competitive and price-sensitive nature of the industry, which limits its pricing power and margins amid the volatility in input costs. Nonetheless, the Group's ability to partly pass on the price increase to its clients mitigates the risk to some extent. Further, the Group's revenues and profitability remain vulnerable to forex fluctuations as a major part of the revenue is export driven. However, the Group hedges most receivables through forward contracts to protect itself from sudden adverse currency movements.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its established position as a supplier of automotive products in the export replacement markets.

Key rating drivers and their description

Credit strengths

Experienced promoters and extensive track record in overseas replacement market and domestic automotive market- SCIL is the flagship entity of the Sigma Group and has an extensive experience in the automotive space. The Group is managed by the second and third-generation promoters, who are supported by an experienced management team. The promoters are present in the auto-ancillary space through Group companies¹, which strengthened their foothold in the automotive market.

Diversification in product mix and expansion in new geographies augur well for the company – The Group has a stable client base and extensive product portfolio in the replacement market and, therefore, the business has largely remained stable over the years. Going forward, the Group is planning to expand its geographical base through setting up offices and acquiring new clients in the West Asian region. This apart, the Group has developed new products for its existing and newly acquired clients. The expansion in geography and new product development are expected to drive growth going forward. Also, in SMS, the company has developed new products for OEMs, which will take some time to scale up.

Comfortable liquidity profile supported by healthy investment book - The Group has significant funds from the monetisation of investments in its erstwhile two joint ventures, which have been mainly deployed in investments. Further, the amalgamation of its erstwhile subsidiary Sigma Industries Limited (SIL) with the holding company — SCIL — strengthened the Group's financial profile, supported by access to the surplus cash and liquid investments on SIL's balance sheet. Although these funds have been on the Group's books for a while now and are parked as non-current investments, the fungibility of these funds with the manufacturing operations remains limited. As of March 31, 2024, the company had ~Rs. 1,459 crore of investment on its book. The investments are managed by SCIL's investment division and would be available to the manufacturing division in case of urgency or cash shortage. The promoters may deploy part of these funds for a suitable opportunity, including inorganic growth, but nothing concrete has been committed yet.

Strong net worth and capital structure – The Group's net worth is strong on account of the monetisation of the investments in the past. The strong net worth, along with the limited indebtedness, led to low gearing. While the capital structure remains strong with a gearing of 0.1 times as of March 31, 2024, the debt coverage indicators moderated slightly on account of additional debt availed in SCIL. The total debt/operating profit slightly moderated to 3.19 times as of March 31, 2024 from 3.15 times as of March 31, 2023.

Credit challenges

Moderate scale of operations and core profitability- The Group's overall scale of core operations remains moderate with consolidated revenues of ~Rs. 359 crore in FY2024, a YoY growth of 9.5%. The moderate scale of operations limits the Group's ability to absorb fixed overheads effectively and restricts the benefits from the economies of scale. Moreover, at a consolidated level, the operating profit margin from its core business operations remains modest. The OPM remained stable at a consolidated level at 10.37% in FY2024. However, the OPM moderated for SCIL, at a standalone level, to 8.68% in FY2024 from 10.39% in FY2023. For SMS, the OPM in FY2024 remained in line with the previous fiscal at 9.39% vis-à-vis 9.37% in FY2023.

Vulnerability of earnings to fluctuations in raw material costs and competition - The Group's profit margins remain susceptible to the fluctuations in the prices of raw materials. Despite the Group's established position in the overseas automotive replacement market for anti-vibration components, it is subject to intense competition that limits its pricing power and profitability to some extent. Moreover, at the tier-II level, the manufacturing of sheet metal stampings is highly competitive, with a large number of unorganised players. This limits the Group's pricing power in the domestic market.

Export-driven revenues and profitability susceptible to fluctuations in forex rates - As most of the revenues is denominated in foreign currencies (USD, Euro and GBP), the Group's revenues and profitability over the years have remained susceptible to

¹ Also, erstwhile joint ventures (JVs) with foreign entities

the movements in forex rates. While the Group hedges part of its exposure, any adverse exchange rate movement may impact its revenues and margins.

Liquidity position: Strong

The Group's liquidity is strong, with limited debt repayments (at a consolidated level) in the range of Rs. 8-10 crore every year over the next three years, which can be serviced comfortably by its expected cash accruals. Further, the strong investment book lends comfort to the overall liquidity position of the Group. The funds may be used to address any funding gaps, if the need arises. Income from liquid investments continues to support the Group's earnings at the net level. Going forward, the deployment and returns related to these funds would be key rating monitorable factors, as it would impact the Group's liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if the Group is able to attain sustained and significant revenue growth, along with an improvement in profitability and coverage indicators. Specific metric for an upgrade is if the total debt/OPBIDTA is less than 2.3 times, on a sustained basis.

Negative factors – The ratings could be downgraded, if there is sustained pressure on revenues and profitability. Additionally, a high debt-funded capital expenditure/investment, or a significant increase in loans extended to Group companies, or any material dividend payout will adversely impact the financial risk profile and may be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Auto Component
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of SCIL, SMS & Sigma Automotive Materials Private Limited (SAM). While SCIL and SMS have been consolidated, given the common management and strong financial linkages between the entities, SAM has been consolidated on account of Corporate Guarantee (CG) extended by SCIL to SAM, covering substantial debt of guarantee.

Note (for analyst reference only):

About the company

Sigma Corporation, established in 1964, converted to Sigma Corporation India Limited (SCIL) in 1995, manufactures anti-vibration rubber-to-metal bonded components for automotive applications. SCIL is the holding company of the North India-based Sigma Group which derives majority of its revenues from the export after-market, particularly in the US and Europe. The company's wholly-owned subsidiary, Sigma Global Inc, provides liaison support to SCIL in the US. SCIL's 77% owned subsidiary, Sigma Moulds and Stampings Private Limited, manufactures sheet metal components for automotive applications and is a tier-I & II supplier. SAM is another Group company which is a tier-II supplier in both the export and domestic markets, with its end customers being OEMs such as Mercedes, BMW, GM, and Ford, among others.

Key financial indicators (audited)

SCIL Consolidated	FY2022	FY2023	FY2024*
Operating income	330.6	327.8	358.8
PAT	12.4	63.9	77.5
OPBDIT/OI	10.1%	10.3%	10.4%
PAT/OI	3.74%	19.49%	21.6%
Total outside liabilities/Tangible net worth (times)	0.2	0.1	0.1
Total debt/OPBDIT (times)	3.1	3.2	3.2
Interest coverage (times)	6.2	5.6	5.3

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts 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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Oct 29, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash credit	Short-term	0.00	-	-	-	19-May-22	[ICRA]A2+	09-Aug-21	[ICRA]A2
Export packing credit	Short-term	40.00	[ICRA]A2+	27-July-23	[ICRA]A2+	-	-	-	-
Non-fund based facilities	Short-term	2.50	[ICRA]A2+	27-July-23	[ICRA]A2+	19-May-22	[ICRA]A2+	09-Aug-21	[ICRA]A2
Term loans	Long-term	3.21	[ICRA]BBB+ (Stable)	27-July-23	[ICRA]BBB+ (Stable)	-	-	-	-
Unallocated	Long-term/Short-term	0.79	[ICRA]BBB+ (Stable)/[ICRA]A2+	27-July-23	[ICRA]BBB+ (Stable)/[ICRA]A2+	19-May-22	[ICRA]BBB+ (Stable)/[ICRA]A2+	-	-
Unallocated	Short-term	0.00	-	-	-	-	-	09-Aug-21	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export packing credit	Simple
Non-fund based facilities	Very Simple
Term loans	Simple
Unallocated	NA

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	Export packing credit	NA	NA	NA	40.00	[ICRA]A2+
NA	Non-fund based facilities	NA	NA	NA	2.50	[ICRA]A2+
NA	Term loans	FY2023	NA	FY2028	3.21	[ICRA]BBB+ (Stable)
NA	Unallocated	NA	NA	NA	0.79	[ICRA]BBB+ (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

Company Name	SCIL* Ownership	Consolidation Approach
Sigma Corporation India Limited	-	-
Sigma Moulds and Stamping Private Limited	76.67%	Full consolidation
Sigma Global Inc.	100%	Full consolidation
KJP & Associates	25%	Equity method

Source: Company, *parent company

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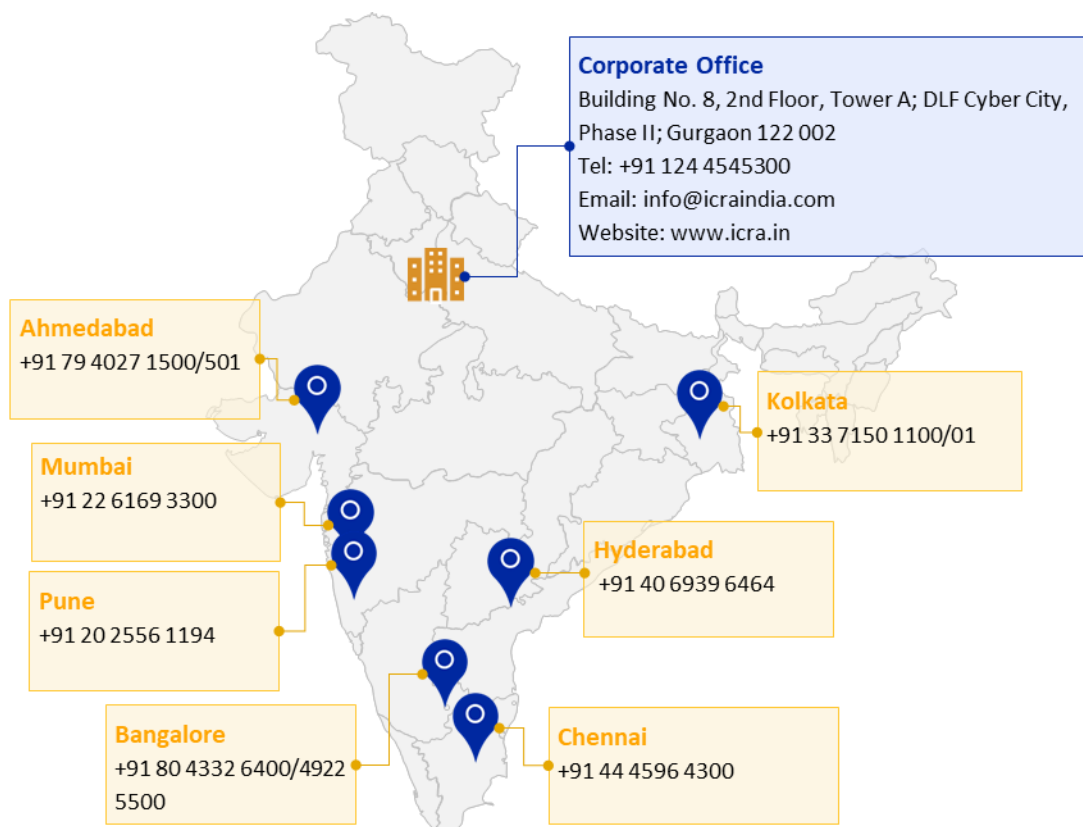


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