

January 10, 2025

EFTEC (India) Private Limited: Ratings reaffirmed

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 Working Capital Facilities | 16.00 | 14.00 | [ICRA]BBB+(Stable)/ [ICRA]A2; reaffirmed |
| Total | 16.00 | 14.00 | |

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings for EFTEC (India) Private Limited (EFTEC or the company) continues to draw comfort stemming from its established market position in the bonding, coating, sealing and damping adhesives used in the domestic automotive industry. Moreover, EFTEC continues to demonstrate a comfortable financial profile with low leverage and healthy return indicators, as reflected by zero debt and return of capital employed (RoCE) of 79% for FY2024 (69% for FY2023). The ratings also factor in the track record of strong financial, operational and managerial support from its parent, the Swiss EMS Group (the Group), and the likely continuation of the same. The EMS Group is a leading global player in the high-performance polymers and speciality chemicals space. Over the years, EFTEC has benefited from the experience and expertise of its parent in the high-performance polymers and speciality chemicals industry.

The ratings, however, remain constrained by EFTEC's moderate scale of operations, with its entire revenue derived from the domestic automotive market, exposing the company to the inherent cyclicity associated with the same. Furthermore, its profitability remains susceptible to fluctuation in raw material prices, which are, in turn, linked to global crude oil prices. Any significant fluctuation in the raw material prices could, therefore, have an impact on the company's profitability metrics. Its margins also remain exposed to currency fluctuations, as the company imports a considerable portion of its raw materials. As it does not have an active hedging mechanism in place, any severe forex movement could have a sizeable impact on the company's margins. However, this risk is mitigated to a certain extent as a significant part of the imports are from Group companies, which provides some comfort in the form of pricing flexibility and payment terms. ICRA also notes the sizeable dividend payouts by EFTEC during FY2023 and FY2024, but the strong parent profile mitigates the risk (as indicated by strong cash flow generation from the ultimate parent entity, with low debt). Nevertheless, the quantum of dividend payouts and its impact on EFTEC's net worth position will be a key rating monitorable, going forward.

The Stable outlook on the long-term rating reflects ICRA's expectations that EFTEC will continue to benefit from its strong parentage and demonstrate sufficient revenue visibility over the medium term on the back of repeat orders from clients, in line with overall growth in the passenger vehicle (PV) industry.

Key rating drivers and their description

Credit strengths

Wholly-owned subsidiary of Swiss EMS Group; strong financial, technical and marketing support from parent – The EMS Group (CHF 2,189 million sales in CY2023) operates globally in high-performance polymers and speciality chemicals. It has 25 production sites across 16 countries. In April 2012, the EMS Group acquired the Shroff Group's entire stake, making EFTEC the former's wholly-owned subsidiary. The parent extends significant technical, (through the R&D assistance for products), financial and marketing support to the company.

Established market position in bonding, coating, sealing and damping adhesives for the domestic automobile industry – The EMS Group is one of the global leaders in providing bonding, coating, sealing and damping adhesive solutions for the automobile industry. EFTEC has an established position in the domestic market, backed by its parent’s established relationships with international original equipment manufacturers (OEMs) in India, resulting in a strong and stable clientele of reputed automotive OEMs. It supplies to various manufacturing facilities of these OEMs, catering primarily to the PV and utility vehicle (UV) segments, while enjoying a healthy share of business with them.

Comfortable financial profile – EFTEC continues to demonstrate a comfortable financial profile, as evidenced by its debt-free position (with the company continuing its debt-free status in FY2024 as well as YTD FY2025), robust credit metrics and healthy liquidity profile. The financial profile is expected to remain comfortable over the near-to-medium term, in the absence of any significant debt-funded planned capital expenditure (capex).

Credit challenges

Moderate scale of operations; exposed to inherent cyclicity in the automotive industry – The company’s overall scale of operations remains moderate with revenues of Rs. 241.8 crore in FY2024. While EFTEC reported a 13% YoY volume growth in FY2024, the moderation in realisation levels due to softening input costs resulted the company in reporting 5% YoY revenue decline for the fiscal, despite the said volume growth. With this, EFTEC’s operating income is expected to remain range-bound over the medium term, given its niche segment of operations. The moderate scale of operations limits EFTEC’s ability to absorb fixed overheads effectively and benefit from economies of scale.

Profitability susceptible to fluctuation in raw material prices and currency movement – The company’s profitability is exposed to fluctuations in raw materials prices, which constitute ~65-70% of its overall cost structure. Further, its profitability is vulnerable to forex fluctuations as EFTEC imports a sizeable portion (~30-40%) of its raw material requirements. Any severe fluctuations in raw material prices or any significant movement in forex rates could, therefore, impact EFTEC’s profitability metrics. However, a significant part of the imports is procured from Group companies, which provides some comfort in the form of pricing flexibility and payment terms.

High geographical concentration risk – EFTEC continues to see geographical concentration risks, with most of its sales concentrated in South and West India. At present, the company is not undertaking any export operations, which is resulting in its susceptibility to cyclicity in the underlying domestic PV industry.

Recurring dividend payout leading to cash outflow – EFTEC reported sizeable dividend pay-outs in the past (barring the pandemic period), with the quantum of pay-outs being Rs. 22 crore and Rs. 38 crore in FY2023 and FY2024, respectively, with the anticipations of the same to continue. While significant dividend pay-outs resulted in sizeable cash outflow for the company over the years, EFTEC’s stable liquidity position and debt-free status provide comfort. ICRA also notes that the parent entity (EMS Group) has strong operating cash flows over a longer timeframe with limited debt on its balance sheet. ICRA expects the company to conserve internal cash flows for any expansion-related expenses.

Liquidity position: Adequate

EFTEC’s liquidity is adequate, evidenced by its cash and liquid investments of Rs. 33.8 crore and undrawn fund-based working capital facilities of Rs. 11.0 crore as on September 30, 2024. Capex requirements are minimal at Rs. 4-5 crore annually and are expected to be comfortably met by internal accruals and existing sources of liquidity. The company continued to remain debt-free in FY2024 and YTD FY2025, highlighting its limited dependence on external borrowings to meet its funding requirements. While the quantum of dividend pay-outs is expected to remain sizeable over the near-to-medium term, it is expected to be aided by healthy cash flow generation of Rs. 20-30 crore per annum going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is substantial growth in the scale of operations while maintaining healthy return indicators and low leverage.

Negative factors – Deterioration in the liquidity position of the company or any weakening in support to EFTEC from its parent entity could lead to a rating downgrade. Deterioration in coverage indicators, such that TD/OPBDITA is above 2.5 times on a sustained basis, could also exert downgrade rating pressure.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Auto Components |
| Parent/Group Support | Parent/Group Company: EMS Group The ratings are based on the implicit support from the EMS Group, as both EFTEC and the Group operate in the same business of bonding/sealing solutions. There are significant business linkages between EFTEC and its parent/group entities in terms of financial assistance and operational support (assistance in the R&D of new products, as well as common supplier base). |
| Consolidation/Standalone | The ratings are based on the standalone financial statements of EFTEC (India) Private Limited. |

Note (for analyst reference only):

About the company

EFTEC (erstwhile EFTEC Shroff (India) Limited) was incorporated in 2000 as a joint venture (51:49) between Shroff Group (promoters of Punjab Chemicals and Crop Protection Ltd.) and EFTEC Asia PTE Ltd. In April 2012, the EMS Group acquired a complete stake from the Shroff Group, and EFTEC became a 100% subsidiary of the EMS Group, Switzerland. It operates in the niche segment of manufacturing and supplying bonding, coating, sealing and damping adhesives to the automobile industry. The company has a manufacturing unit at MIDC, Ranjangaon, in the Pune district of Maharashtra.

Key financial indicators (audited)

| EFTEC | FY2023 Audited | FY2024 Audited |
|--|----------------|----------------|
| Operating income (Rs. crore) | 254.5 | 241.8 |
| PAT (Rs. crore) | 28.1 | 32.3 |
| OPBDIT/OI (%) | 15.7% | 19.1% |
| PAT/OI (%) | 11.1% | 13.3% |
| Total outside liabilities/Tangible net worth (times) | 0.8 | 0.8 |
| Total debt/OPBDIT (times) | 0.0 | 0.0 |
| Interest coverage (times) | 63.2 | 46.9 |

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

Source: EFTEC, ICRA Research

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) | January 10, 2025 | FY2024 | | FY2023 | | FY2022 | |
| | | | | Date | Rating | Date | Rating | Date | Rating |
| Working Capital Facilities | Long-term / Short-term | 14.00 | [ICRA]BBB+ (Stable) / [ICRA]A2 | 12-Jan-24 | [ICRA]BBB+ (Stable) / [ICRA]A2 | 22-Nov-22 | [ICRA]BBB+ (Stable) / [ICRA]A2 | 03-Sep-21 | [ICRA]BBB+ (Stable) / [ICRA]A2 |

Source: Company

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Long-term/ Short -term – Fund Based / Non Fund Based Working Capital 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 I: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---------|----------------------------|-----------------------------|-------------|---------------|--------------------------|---------------------------------|
| NA | Working Capital Facilities | NA | NA | NA | 14.0 | [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 – Not Applicable

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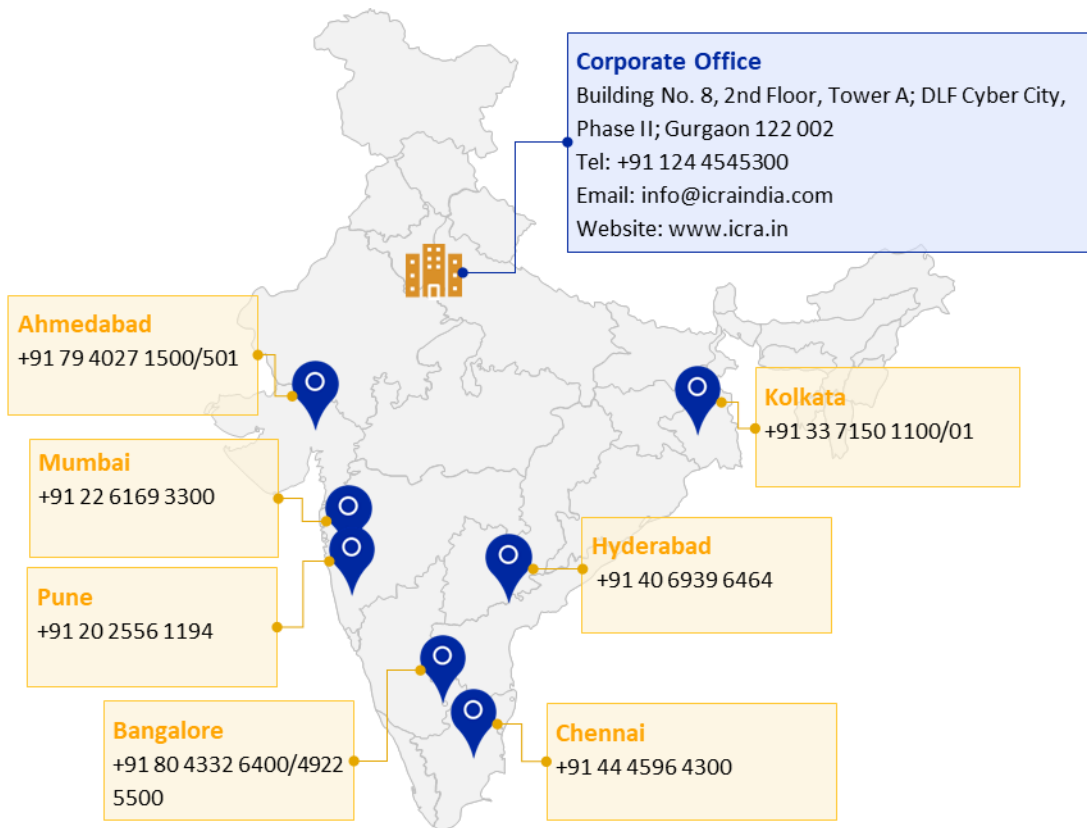
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