May 05, 2025

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	33.50	142.50	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed /assigned for enhanced limits
Long-term – Fund-based – Term loans	0.00	170.00	[ICRA]A+(Stable); assigned
Total	**33.50**	**312.50**	

**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 its diversified business profile, spanning geographies and automotive segments in addition to its reputed clients in the domestic as well as overseas markets providing sufficient revenue visibility and supporting 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.

The ratings continue to factor in the steady business risk profile of SFS over the years, demonstrated by a sustained revenue growth momentum (CAGR of 17% over the last four years) and healthy operating profitability of 23-24% reported in CY2023 and CY2024, with expectations of revenue growth momentum to be maintained, going forward. The company reported 13% YoY revenue growth to Rs. 450.1 crore in CY2024, aided by steady volume offtake in the domestic as well as export markets. 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, 2024, and Total Debt/OPBITDA at 0.1 times in CY2024.

SFS has also ventured into electronic division (a segment where its parent entity is already present), which is expected to aid improvement in the company's 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 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 has planned sizeable capex of Rs. 250-260 crore in the next two years, mainly towards setting up a greenfield project for the electronics division. The said capex will primarily funded through external debt. 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. ICRA does note that capacity expansion will help the company scale-up in the electronics division products where it has a significant technological advantage in the domestic market. The timely execution of this project, along with generation of commensurate returns from the same, remain key credit monitorable. 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 recent imposition of tariffs by the US government on the company's products (25% tariff on steel derivative product applicable to precision machined parts / PMP) is likely to weigh on the company's earnings over the near term. However, the company's diversification into the electronic segment and established relationships and healthy business share with some of the leading OEMs provide comfort regarding its growth prospects over the medium term.

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. Venturing into the electronic division manufacturing business is likely to aid revenue growth momentum while also offering segmental diversification to the company over the medium to long term.

Key rating drivers and their description

Credit strengths

Diversified presence across geographies and segments along with a reputed client base – SFS primarily manufactures high-precision machined components for engines, turbo chargers, fuel systems, hydraulics, and safety parts 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 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 December 31, 2024, SFS Intec Holding AG held a 99.74% stake in the company, with SFS slated 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 four years, the SFS Group had a healthy ramp-up in revenues at a CAGR of 17%, in addition to the operating profitability remaining healthy with operating profit margin (OPM) of 23.1% in CY2024 (24.5% in CY2023). 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, 2024 (PY: 0.1 times), and interest cover of 100.0 times in CY2024 (PY: 121.5 times). The liquidity position is also comfortable with cash and liquid investments, coupled with buffer from undrawn bank lines at ~Rs. 138 crore as of February 28, 2025. 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. 250-260 crore over a period of next two years (CY2025-CY2026), mainly towards capacity expansion of the electronics business and modernisation drives, in addition to the routine capex towards the automotive division. The funding for setting up the greenfield project will primarily be met through term debt, which likely to result in higher leverage over the medium term. 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 cyclicality in automotive industry – With an operating income of Rs. 450.1 crore in CY2024, 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 cyclicality associated with the automotive industry, its plans to expand its presence 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 time 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 23.1% in CY2024 (PY: 22.7%), led by healthy operating profitability. That said, the profitability is expected to get impacted to a certain extent in the nascent stage of operations of the electronics division over the near term, which is likely to result in a transitory contraction of ROCE, with subsequent recovery envisaged as and when the electronics division scales up its operations.

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 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 electronics business, the reliance on the automotive sector is expected to moderate 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. 138 crore as of February 28, 2025. Further, the company is expected to generate healthy cash flows of Rs. 40-50 crore per annum, which, coupled with its existing liquidity position, should partly meet the funding requirement of planned capex over the medium term (Rs. 120-130 crore capex expected in CY2025). 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. Indo Schottle 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 for electronic division as a part of its diversification strategy.

Key financial indicators

SFS	CY2023 Audited	CY2024 Audited
Operating Income (Rs. crore)	398.9	450.1
PAT (Rs. crore)	51.2	53.9
OPBDIT/OI (%)	24.5%	23.1%
PAT/OI (%)	12.8%	12.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	121.5	100.0

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

	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	**Type**	**Amount Rated (Rs. crore)**	**May 5, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Fund based/Non-fund Based Facilities	Long Term / Short Term	142.5	[ICRA]A+ (Stable)/ [ICRA]A1	4-Oct-24	[ICRA]A+(Stable) / [ICRA]A1	17-Aug-23	[ICRA]A+(Stable) / [ICRA]A1	28-Jul-22	[ICRA]A(Stable) / [ICRA]A1
Fund based/ Term loans	Long-Term	170.0	[ICRA]A+ (Stable)	-	-	-	-	--	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/Non-fund Based Facilities	Simple
Term Loans	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	142.50	[ICRA]A+(Stable)/ [ICRA]A1
NA	Term Loan	Dec-2024	NA	Dec-2029	170.00	[ICRA]A+(Stable)

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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ABOUT ICRA LIMITED

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