January 23, 2020

# Savera India Riding Systems Company Private Limited: Long-term rating upgraded to [ICRA]BB- (Stable), removed from Issuer Not Cooperating category; [ICRA]A4 assigned

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund-based – Cash Credit | 10.00 | 10.00 | [ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable); removed from Issuer Not Cooperating category |
| Fund-based – Bill Discounting | 0.00 | 2.00 | [ICRA]A4; Assigned |
| Non–fund based – Letter of Credit | 0.00 | 2.00 | [ICRA]A4; Assigned |
| Unallocated | 3.00 | 1.00 | [ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable); removed from Issuer Not Cooperating category |
| **Total** | **13.00** | **15.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating upgrade for Savera India Riding Systems Company Private Limited (SRPL) reflects the recovery from losses in FY2019 through improvement in sales realisation due to price revision with major customers. Along with profit generation in FY2019 the company also demonstrated improved coverage indicators and improved net worth position despite the accumulated losses. ICRA also takes comfort from the support from the holding company Perfiles Especiales S.L. (PESL) (part of the Spain based Savera Group), in the form of technology transfer as well as financial assistance through equity infusion and unsecured debt extended in FY2019. The ratings also favourably take into account the established track record of SRPL‘s promoters in the field of manufacturing elevator guide-rails and allied products and its association with well-established elevator-manufacturing companies.

The ratings, however, are restrained due to sub-optimal capacity utilisation due to lower off-take from the major customers leading to volumetric de-growth in FY2018, FY2019 and the current year, limiting the scale of operations. ICRA also notes the high customer concentration risk with five customers accounting for 80-85% of the total sales, constraining profitability due to the limited bargaining power on dealing with large and established players. It takes note of the company’s exposure to high supplier concentration risk, given its sourcing arrangement with a single supplier for major raw materials. The ratings further factor in the exposure to cyclicality, associated with real estate and steel sector, vulnerability to commoditised steel prices and intense competition from low cost Chinese elevator accessories, especially rail guide.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that SRPL will continue to benefit operationally and from its established promoter Group and its association with well-established elevator-manufacturing companies.

## Key rating drivers and their description

## Credit strengths

**Extensive experience and support from the promoter Group -** Incorporated in March 2005 by Spain- based Savera Group and its Indian promoters - Mr. Vinay Kothari and Mr. Girish Jain, SRPL enjoys financial as well as operational support in the form of technology transfer from Perfiles Especiales Selak S.L. (PESL) - the holding company (part of the Spain-based Savera Group). The company has been able to build a reputed clientele comprising tier-I elevator manufacturers in India.

**Improvement in sales realisation leading to profit generation in FY2019; subsequent improvement in coverage indicators –** After incurring losses from FY2014 – FY2018, SRPL booked profits on operating and net levels in FY2019 due to a decline in raw material consumption to 86% of the sales from 91% in the previous year. This was due to economising of manufacturing overheads and price revision with the major customers, which led to 19% YoY growth in sales realisation. The company reported an operating margin of 5.1% in FY2019 as compared to an operating loss of 2.3% in the previous year. In line with the improved operating profitability, the net profitability and return indicators improved to 2.5% and 21.9% in FY2019 from -4.8% and -19.7% respectively in FY2018. Further, with profitability at the operating and net levels, the coverage indicators improved, as is evident from the interest coverage ratio and DSCR of over 3 times as on March 31, 2019.

**Capital infusion by promoters in FY2018 and FY2019 improves net worth despite accumulated losses –** The promoters have infused a total of Rs. 3.3 crore as equity over FY2018 and FY2019 to support the growing scale of operations. Despite accumulated losses, the equity infusion along with profits generated in FY2019, led to an improvement in the net worth base, which stood at Rs. 9.7 crore as on March 31, 2019 from Rs. 5.2 crore as on March 31, 2018, improving the gearing to 1.1 times and TOL / TNW to 1.9 times in FY2019 from 1.8 times and 4.2 times in FY2018.

## Credit challenges

**Sub-optimal capacity utilisation has limited the scale of operations –** With an operating income of Rs. 94.2 crore, SRPL operates on a moderate scale. The capacity utilisation for SRPL decreased to 46% in 8M FY2020 from 54% (13,952 MT) in FY2019 and 60% (15,623 MT) in FY2018 due to lower offtakes from its major customers. Reducing capacity utilisation has limited the revenue growth of the company.

**Limited bargaining power with well-established elevator-manufacturing companies -** The company has established linkages with reputed elevator companies and has received repeat orders. However, the high customer concentration with top five customers accounting for 80-85% of the total sales, limits SRPL's bargaining power, thereby constraining the profitability.

**Dependence on single supplier for raw material leads to supply-side risks** - The major raw material required for elevator rail guide is T-sections which the company solely procures from Prabhat Steel Industries (PSI), having its plant in Satara, Maharashtra, which is also an associate concern of SRPL. While the company has to bear high transportation costs for supply to T-sections from Maharashtra to its Kancheepuram (Tamil Nadu) facility, such high dependence on a single supplier also gives rise to supplier concentration risks.

**Exposure to cyclicality associated with real estate and steel sector –** Rail guides manufactured by SRPL are used by elevator companies whose demand is directly correlated to the construction and the real estate sectors, making the company's revenue vulnerable to the cyclicality in the real estate industry. The sales realisation also depends on the price of raw material that is T-sections made of scrap and sponge iron. Although the prices generally move in tandem, there could be short-term mismatches in the raw material and the end-product prices, which are linked to the commoditised steel prices leading to volatility in margins.

**Intense competition from low-cost Chinese products -** The company faces intense competition from low-cost Chinese manufacturers. However, due to its superior quality products and an established clientele, SRPL has managed to secure its position in the market.

## Liquidity position: Stretched

SRPL's liquidity is stretched with negative cash flow from operations owing to incremental working capital requirements in FY2019, along with minimal free cash as on March 31, 2019 and November 30, 2019. However, capital infusion and unsecured debt brought in by the promoter provided some support to the liquidity. Though the working capital limits from the bank have been enhanced from Rs. 8.0 crore to Rs. 14.0 crore from September 2019, ICRA expects the liquidity to remain stretched in the medium term as bank working capital borrowing utilisation is expected to be high to support the expected changed procurement mode.

The company also availed the external commercial borrowing of Rs. 1.1 crore from PESL in FY2019, of which Rs. 0.2 crore is scheduled to be repaid each year till FY2025. The repayment burden is going to remain low in the years ahead as the company doesn't have any major capacity expansion plans.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade SRPL's rating if the company demonstrates a continual growth in its operating income and maintains current profitability, thereby improving the net worth and strengthening the liquidity position on a sustained basis.

**Negative triggers -** Negative pressure on SRPL's rating could arise if significant declining capacity utilisation or considerably lower sales realisations lead to revenue de-growth or profitability declines, resulting in further weakening of the liquidity profile of the company.

## Analytical approach

| **Analytical Approach** | **Comments** |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | NA |
| Consolidation/Standalone | The rating is based on standalone financial statements of the rated entity. |

## About the company

Incorporated in March 2005, SRPL commenced commercial operations in May 2007. It is a joint venture between its Indian promoters (Mr. Vinay Kothari and Mr. Girish Jain) and the Spain-based Savera Group (through its wholly-owned subsidiary Perfiles Especiales Selak S.L.). The Spanish company increased its stake in SRPL from 46% to 54% in FY2019, with infusion of Rs. 2.2 crore as equity.

SRPL manufactures elevator guide rails, an essential part of most elevator and lift shafts. The manufacturing activities are carried out at a facility in Taloja MIDC in the Raigad District of Maharashtra. The company also utilises the Kancheepuram (Tamil Nadu) plant of its sister concern Savera Kothari India Private Limited (SKIPL) and pays processing charges for using its facilities. The company has an aggregate installed capacity of 26,000 metric tonnes per annum (MTPA).

In FY2019, the company reported a net profit of Rs. 2.3 crore on an operating income of Rs. 94.2 crore compared to a net loss of Rs. 4.2 crore on an operating income of Rs. 86.0 crore in the previous year.

## Key financial indicators (audited)

| | FY2018 | FY2019 |
|---|---|---|
| Operating Income (Rs. crore) | 86.0 | 94.2 |
| PAT (Rs. crore) | -4.2 | 2.3 |
| OPBDIT/OI (%) | -2.3% | 5.1% |
| RoCE (%) | -19.7% | 21.9% |
| | | |
| Total Outside Liabilities/Tangible Net Worth (times) | 4.2 | 1.9 |
| Total Debt/OPBDIT (times) | -4.9 | 2.2 |
| Interest Coverage (times) | -2.3 | 3.2 |
| DSCR | -2.0 | 3.2 |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

ICRA

## Rating history for past three years

| | Instrument | Rating (FY2020) | | | | | Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | Current Rating | Earlier Rating | FY2019 | FY2018 | FY2017 |
| | | | | | 23-Jan-2020 | 30-Jul-2019 | - | 25-Jan-2018 | 27-Mar-2017 |
| 1 | Cash Credit | Long Term | 10.0 | - | [ICRA]BB- (Stable) | [ICRA]B+ (Stable); ISSUER NOT COOPERATING | - | [ICRA]B+ (Stable) | [ICRA]BB (Stable) |
| 2 | Bill Discounting | Short Term | 2.0 | - | [ICRA]A4 | - | - | - | - |
| 3 | Letter of Credit | Short Term | 2.0 | - | [ICRA]A4 | - | - | - | - |
| 4 | Unallocated | Long Term | 1.0 | - | [ICRA]BB- (Stable) | [ICRA]B+ (Stable); ISSUER NOT COOPERATING | - | [ICRA]B+ (Stable) | [ICRA]BB (Stable) |

*Amount in Rs. Crore*

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

## Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Cash Credit | NA | NA | NA | 10.0 | [ICRA]BB- (Stable) |
| NA | Bill Discounting | NA | NA | NA | 2.0 | [ICRA]A4 |
| NA | Letter of Credit | NA | NA | NA | 2.0 | [ICRA]A4 |
| NA | Unallocated | NA | NA | NA | 1.0 | [ICRA]BB- (Stable) |

*Source: Savera India Riding Systems Company Private Limited*

## Annexure-2: List of entities considered for consolidated analysis

**NA**

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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.

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