

April 03, 2020

Sigma Corporation India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits/Short term	33.00	40.00	[ICRA]A2; Reaffirmed
Non-Based Facilities/Short term	0.00	0.50	[ICRA]A2; Reaffirmed
Unallocated: Short term	0.00	1.00	[ICRA]A2; Reaffirmed
Total	33.00	41.50	

*Instrument details are provided in Annexure-1

Rationale

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

The rating reaffirmation factors in the established presence of the Group in the automotive industry in the domestic as well as global markets, and its strong customer relationships that support its business volumes in a highly competitive and price sensitive market. The rating reaffirmation favourably factors in the various cost-control measures undertaken by the management, which along with presence in the export market, has helped the Group in reporting relatively stable margins during the recent industry downturns. ICRA's ratings also centrally factor in the Group's strong liquidity profile supported by significant liquid investments. Moreover, the ratings factor in the Group's experienced management, and its in-house capabilities for designing and manufacturing quality components, which have supported its market position. Furthermore, the Group remains focused on increasing the value-addition and automation in its manufacturing process. The investments in these improvements are expected to accrue benefits over the medium term through revenue growth, margin expansion and client retention.

The ratings remain constrained by the Group's moderate financial risk profile, as reflected by the modest scale of operations (that limit its ability to realise benefits of economies of scale) and the relatively moderate profit margins. The ratings also factor in the vulnerability of the Group's earnings to the cyclicity in automotive business. ICRA also factors in the competitive and price-sensitive nature of the industry, which exposes the Group to uncertainty in business orders and limits its pricing power and margins. Furthermore, its revenues and profitability remain vulnerable to forex fluctuations as most revenues are export driven. However, the Group hedges its receivables through forward contracts to protect itself from sudden adverse currency movements. The ratings also note the Group's working capital-intensive nature of business that has resulted in near-complete utilisation of working capital facilities. However, the significant liquid funds¹ available with the Group that support its liquidity profile, continue to offer comfort. In addition to the liquidity buffer that these investments offer, income on the same continue to support the Group's earnings in the recent

¹ The Group has ample liquid funds (Rs. 1,054.6 crore as on March 31, 2019) on its books, from the monetisation of its investments in its two erstwhile joint ventures, Freudenberg NOK Private Limited (erstwhile Sigma Freudenberg NOK Private Limited) and Trelleborg-Vibracoustics India Private Limited (erstwhile Sigma Vibracoustics India Private Limited)

years. Going forward, deployment plans for these funds would be a key rating sensitivity, as it would impact the Group's liquidity profile. Hence, these would be monitored.

The Stable outlook reflects ICRA's expectation that the Group's liquidity will continue to remain strong and help it comfortably meet the fixed expenses as well as debt servicing requirements, despite the ongoing operational challenges because of the COVID-19 pandemic. A prolonged continuation of the detrimental impact of the Coronavirus outbreak which creates a sustained pressure on the Group's liquidity profile and exposes it to heightened operating and financial risks, may warrant a review of the rating. ICRA will continue to monitor the developments in this regard and its implications on the Group's performance and credit profile.

Key rating drivers and their description

Credit strengths

Experienced promoters and management team: SCIL is the flagship entity of the Sigma Group, which has extensive experience in the automotive space. The Group is managed by the second and third-generation promoters, who are supported by a professional management team. The promoters are present in the auto-ancillary space through Group companies², which has strengthened their foothold in the automotive market.

Established presence of the Group in overseas replacement market as well as domestic automotive market: The Group is one of the leading manufacturers of automotive rubber-to-metal bonded anti-vibration components and sheet metal components in the export and domestic market, respectively. It has been operating in the US and European automotive replacement markets for over 50 years. Its extensive experience and understanding of the target markets have helped it maintain strong relationships with customers and gain incremental business over the years.

Comfortable liquidity profile with significant quantum of funds parked in liquid investments: The Group has significant amount of funds from the monetisation of its investments in its erstwhile two joint ventures, which have been deployed in liquid investments. Furthermore, the amalgamation of its erstwhile subsidiary Sigma Industries Limited (SIL) with the holding company — SCIL — has further strengthened the Group's financial profile supported by access to the surplus cash and liquid investments on SIL's balance sheet. While these funds support the liquidity profile of the Group at present, the deployment of these funds in the future would remain a key sensitivity.

Credit challenges

Moderate scale of operations and profitability: The overall scale of the Group's operations remains moderate with consolidated revenues of Rs. 201.6 crore in FY2019, despite a YoY growth of 20%. The moderate scale of operations limits its ability to absorb fixed overheads effectively and benefit from economies of scale. Moreover, on a consolidated level, the operating profit margins remained modest owing to under absorption of fixed overheads.

Exposure to inherent cyclicity in automotive demand and other exogenous shocks: The Group supplies to the automobile industry, which exposes it to the inherent cyclicity. Over the recent past, the automotive industry has been experiencing slowdown across all segments, which is likely to weigh on the Group's near-term performance. Moreover, extension of the ongoing lockdown or a more severe impact of the COVID-19 pandemic on demand in end-user

² Also, erstwhile joint ventures (JVs) with foreign entities

industries and the effect of the same on the Group’s operational and financial profile, including its working capital cycle, will be a key rating monitorable.

Vulnerability of earnings to fluctuations in raw material costs and competitive pressures: The Group’s profit margins remain susceptible to 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, which limits its pricing power and profitability to some extent. Moreover, at the tier II level, manufacturing of sheet metal stampings is highly competitive, with a large number of unorganised players. This limits the pricing power of the Group in the domestic market.

Export-driven nature of revenues keeps SCIL’s revenues and profitability susceptible to fluctuations in forex rates: As most of the revenues are denominated in foreign currencies (USD, Euro and GBP), the Group’s revenues and profitability over the years have remained susceptible to movements in forex rates. Any adverse exchange rate movement may impact the Group’s revenues and margins adversely.

Liquidity position: Strong

The Group’s liquidity is **strong**. The Group has limited debt repayments in the range of Rs. 2-3 crore every year over the next three years, which can be serviced comfortably by the Group’s expected cash accruals. Further, even though the working capital limits at the Group level are near fully utilised, the Group’s strong liquidity position offers comfort, with surplus liquid investments, which would support it in meeting funding gaps, if any. Going forward, deployment plans for these funds would be a key rating sensitivity, as it would impact the liquidity profile significantly, and hence would be monitored.

Rating sensitivities

Positive triggers: ICRA could upgrade the ratings if there is a recovery in the overall industry demand and also abatement of the COVID-19 pandemic. This along with the Group’s ability to maintain healthy profitability and coverage indicators on a sustained basis would be the key upgrade triggers.

Negative triggers: Pressure on the ratings could emerge, if there is a sustained slowdown or increased competition, leading to pressure on revenues and profitability, or increased challenges such as stretch in working capital cycle and pressure on liquidity due to external conditions (including the impact of COVID-19) may warrant a rating review. While ICRA positively views the Group’s strong liquidity position with ample amount of funds deployed in liquid investments; outflow of these funds which results in a significant depletion of liquidity, will be a key rating monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on consolidated financial statements of the issuer and its subsidiaries as listed in Annexure 2, given the common management as well as strong financial linkages between the entities

About the company

Established in 1964, Sigma Corporation India Limited manufactures anti-vibration rubber-to-metal bonded components for automotive applications. SCIL is the holding company of the North India-based Sigma Group. 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 (rated [ICRA]BBB+ (Stable)/A2) manufactures sheet metal components for automotive applications and is a tier-II supplier.

Key financial indicators (audited) Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	168.09	201.61
PAT (Rs. crore)	41.95	454.09
OPBDIT/OI (%)	9.78%	8.76%
RoCE (%)	5.46%	49.68%
Total Outside Liabilities/Tangible Net Worth (times)	0.18	0.11
Total Debt/OPBDIT (times)	4.68	4.62
Interest Coverage (times)	2.39	3.13
DSCR	3.87	37.55

Source: Financial statements of SCIL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					April 3, 2020	June 13, 2019	August 24, 2018	July 26, 2017
1	Fund based limits	Short Term	40.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
2	Non-fund based limits	Short Term	0.50	-	[ICRA]A2	-	-	-
3	Unallocated	Short Term	1.00	1.00	[ICRA]A2	-	-	-

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Short term/ fund based	-	-	-	40.00	[ICRA]A2
-	Short term/ Non-fund based	-	-	-	0.50	[ICRA]A2
-	Short term/Unallocated	-	-	-	1.00	[ICRA]A2

Source: SCIL

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

Company name	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

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