

August 09, 2021

Sigma Moulds and Stampings Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based/CC	13.80	13.80	[ICRA]BBB+ (Stable); Reaffirmed
Long-term Fund Based/TL	5.40	5.40	[ICRA]BBB+ (Stable); Reaffirmed
Short-term Non-fund Based	2.00	2.00	[ICRA]A2; Reaffirmed
LT/ST Unallocated	0.80	0.80	[ICRA]BBB+ (Stable); [ICRA]A2/ Reaffirmed
Total	22.00	22.00	

*Instrument details are provided in Annexure-1

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 rating, given the common management as well as strong financial linkages between the entities.

The rating reaffirmation factors in the Group's established presence in the automotive industry in the domestic as well as international markets, and its strong customer relationships supporting its business volumes in a highly competitive and price-sensitive market. The Group's presence in the exports aftermarket kept it insulated, to an extent, from the recent industry downturns amid weak domestic demand. The rating reaffirmation favourably factors in the Group's consistent efforts to shift towards products with higher margins and export-oriented clients. The rating draws comfort from the Group's continued strong liquidity profile supported by significant liquid investments. Moreover, the rating factors in the Group's experienced management, and its in-house capabilities for designing and manufacturing quality components, which have supported its market position. The investments in these improvements are expected to accrue benefits over the medium term through revenue growth, margin expansion and client retention.

The rating is constrained by the Group's moderate financial risk profile, as reflected by its modest scale of operations and relatively subdued profitability emanating out of its core business operations. ICRA 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 the sudden adverse currency movements. The rating notes the Group's working capital-intensive nature of business with growing receivable period in the pandemic. This has resulted in above-average utilisation of its working capital facilities. In addition to the liquidity investments, income on the same continues to support the Group's earnings at the net level. Going forward, the deployment plans for these funds would be a key rating sensitivity, as it would impact the Group's liquidity 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 companies¹, which has strengthened their foothold in the automotive market.

Established presence of the Group in overseas replacement market and 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 markets. 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. Even in domestic market, SMS is a tier-I and II supplier with *Maruti* and *Ford* vehicles being the end users. The Group is also foraying into exports for its sheet metal component business, which would further expand its customer base.

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. As on March 31, 2021, the company had Rs. 1,211 crore of liquid investments. The liquid investments are taken care by SCIL's investment division and would be available to the manufacturing division in case required urgently.

Credit challenges

Moderate scale of operations and profitability: The Group's overall scale of operations remains moderate with consolidated revenues of only Rs. 191 crore in FY2021, despite a marginal YoY growth of 1.2%. The moderate scale of operations limits its ability to absorb fixed overheads effectively and restricts the benefits from economies of scale. Moreover, on a consolidated level, the operating profit margins arising out of its core business operations remained modest.

Working capital intensive nature of operations: Although company had healthy liquidity owing to robust liquid investments, the working capital intensity increased in FY2021. For the anti-vibration components segment, the Group had to offer higher credit to its customers in backdrop of the pandemic. In the other segments, its stock levels were higher than usual with growing raw material prices. This also resulted in above-average utilisation levels of working capital limits.

Vulnerability of earnings to fluctuations in raw material costs and competition: 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 Group's pricing power 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 its expected cash accruals. Further, even though the working capital limits at the Group level are highly utilised, the strong investment book lends comfort, with surplus liquid investments to address any funding gaps, in case of emergency.

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

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the Group is able to attain sustained revenue growth along with improvement in profitability and coverage indicators.

Negative factors – Pressure on the rating could emerge, if there is a sustained pressure on the company’s revenues and profitability. Additionally, a high debt-funded capital expenditure/investment, significant increase in loans extended to Group companies or any material dividend payout, adversely impacting the financial risk profile may trigger a rating downgrade.

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 enlisted 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 manufactures sheet metal components for automotive applications and is a tier-II supplier.

Key financial indicators (Audited/Provisional)

Consolidated	FY2019 (A)	FY2020 (A)	FY2021 (P)
Operating Income (Rs. crore)	201.61	188.66	190.97
PAT (Rs. crore)	454.09	79.18	71.09
OPBDIT/OI (%)	8.76%	10.80%	12.50%
RoCE (%)	49.68%	6.08%	6.63%
Total Outside Liabilities/Tangible Net Worth (times)	0.11	0.09	0.11
Total Debt/OPBDIT (times)	4.62	3.51	3.18
Interest Coverage (times)	3.13	3.14	4.79
DSCR (times)	37.55	6.39	8.73

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No.	Instrument	Current Rating (FY2022)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2021	FY2020	FY2019
					09-Aug-21	3-Apr-20	13-Jun-19	-
1	Fund Based/CC	Long-term	13.80	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Fund Based/TL	Long-term	5.40	5.40	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Non-fund Based	Short-term	2.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
	Unallocated	LT/ST	0.80	-	[ICRA]BBB+ (Stable); [ICRA]A2	[ICRA]BBB+ (Stable); [ICRA]A2	-	-

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Long Term - Fund Based/ TL	Simple
Short Term –Non-Fund Based	Very Simple
LT/ST 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, is available on ICRA's 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
NA	Fund Based/CC	-	NA	-	13.80	[ICRA]BBB+ (Stable)
NA	Fund Based/TL	2019	NA	2022	5.40	[ICRA]BBB+ (Stable)
NA	Non-fund Based	-	NA	-	2.00	[ICRA]A2
NA	Unallocated	-	NA	-	0.80	[ICRA]BBB+ (Stable); [ICRA]A2

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Nishant Misra
+91 124 4545862
nishant.misra@icraindia.com

Sheetal Sharad
+91 124 4545374
sheetal.sharad@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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