

May 19, 2022

Sigma Moulds and Stampings Private Limited: Long-term rating reaffirmed; short-term rating upgraded; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------|-----------------------------------|----------------------------------|--|
| Long-term Fund Based/CC | 13.80 | 13.20 | [ICRA]BBB+ (Stable); reaffirmed |
| Long-term Fund Based/TL | 5.40 | 9.01 | [ICRA]BBB+ (Stable); reaffirmed/assigned |
| Short-term Non-fund Based | 2.00 | 2.00 | [ICRA]A2+; upgraded from [ICRA]A2 |
| LT/ST Unallocated | 0.80 | 0.79 | [ICRA]BBB+(Stable); reaffirmed/[CRA]A2+ upgraded from [ICRA]A2 |
| Total | 22.00 | 25.00 | |

*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 and strong financial linkages between the entities.

The reaffirmed long-term rating for SMS factors in the Group's established presence in the automotive industry in the domestic and international replacement markets, and its strong customer relationships that support its business volumes in a highly competitive and price-sensitive market. The Group's significant presence in the export aftermarket, particularly in the US and Europe, has resulted in consistent order inflows from the overseas market, even from new customers, which reflected in the improved revenue in FY2022. The reaffirmed rating further favourably factors in the Group's consistent efforts to shift towards products with higher margins and export-oriented clients, which is reflecting in the commencement of exports sales from FY2022 onwards in SMS.

Further, the upgrade in the short-term rating factors in the Group's continued strong liquidity profile, backed 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. ICRA also notes that on account of the monetisation of the investments in the past, the Group's net worth has become strong, which along with limited indebtedness, has resulted in low gearing. The interest coverage and TD/OPBIDTA also remained comfortable at 7.48 times and 2.92 times, respectively, as on March 31, 2022.

The rating is constrained by the Group's moderate scale of operations and relatively subdued returns from its core business operations. ICRA factors in the competitive and price-sensitive nature of the industry, which exposes the Group to the uncertainty in business orders and limits its pricing power and margins amid the volatility in input cost. Nonetheless, the Group's ability to partly pass on the price increase to its clients mitigates the risk to some extent.

Further, Group's revenues and profitability remain vulnerable to forex fluctuations as most revenues are export-driven. However, the Group hedges most 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 above-average utilisation of working capital facilities. In addition to the liquid investments, income on the same continues to support the Group's earnings

at the net level. Going forward, the deployment of 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; extensive relationships in overseas replacement market and domestic automotive market: 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. 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 the domestic market, SMS is a tier-I and II supplier with Maruti and Ford vehicles being the end users. The Group, through SMS, has recently forayed into exports for its sheet metal component business, which is expected to expand further, going forward.

Improvement in export order book with expanding customer base: In FY2022, the increase in the Group's sales is mostly attributed to the improvement in order inflows from overseas, clients particularly in SCIL, post the pandemic. Incremental volume sales were further supported by better realisations on the back of higher input prices, collectively increasing the Group's overall revenue. In FY2022, for the last four months, SMS also started exporting to a new set of customers, for which the product development was in the pipeline for the last three to four years.

Comfortable liquidity profile with significant 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 mainly deployed in liquid investments. Further, the amalgamation of its erstwhile subsidiary Sigma Industries Limited (SIL) with the holding company — SCIL — had strengthened the Group's financial profile, supported by access to the surplus cash and liquid investments on SIL's balance sheet. Although these funds have been on the Group's books for a while now, the fungibility of these funds with the manufacturing operations remains limited. The promoters plan to deploy these funds for a suitable opportunity, including inorganic growth. As on March 31, 2022, the company had Rs. 1,259 crore of liquid investments. The liquid investments are managed by SCIL's investment division and would be available to the manufacturing division in case of urgency or cash shortage.

Strong net worth, low leverage and comfortable coverage indicators: On account of the monetisation of the investments in the past, the Group's net worth has become strong, which along with limited indebtedness, has resulted in low gearing. The interest coverage and TD/OPBIDTA also remained comfortable at 7.48 times and 2.92 times, respectively, as on March 31st, 2022.

Credit challenges

Moderate scale of operations and profitability: The Group's overall scale of core operations remains moderate with consolidated revenues of only Rs. 251.4 crore in FY2022, despite a significant YoY growth of ~43%. 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 remain modest.

Vulnerability of earnings to fluctuations in raw material costs and competition: The Group's profit margins remain susceptible to the fluctuations in the prices of raw materials. Despite the Group's established position in the overseas automotive

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

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, the 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 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 the 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** with limited debt repayments in the range of Rs. 4-5 crore every year over the next three years, which can be serviced comfortably by its expected cash accruals. Further, the strong investment book lends comfort, with surplus liquid investments and unencumbered cash balances of around Rs 1259 crore as on March 31, 2022. The funds may be required to address any funding gaps, in case of emergency,

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group is able to attain sustained and significant revenue growth along with improvement in profitability and coverage indicators. The ratings could also be upgraded if the total debt/OPBDITA is less than 2.3 times in a sustained basis.

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

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 the consolidated financial statements of the issuer and its subsidiaries as listed in Annexure 2, given the common management and strong financial linkages between the entities |

About the company

SCIL's 77% owned subsidiary, Sigma Moulds and Stampings Private Limited (SMS) manufactures sheet metal components for automotive applications and is a tier-II supplier. Apart from being a player in the domestic market, SMS also commenced its exports sales from FY2022 onwards.

Key financial indicators (Audited/Provisional*)

| Standalone | FY2020 | FY2021 | FY2022* |
|--|--------|--------|---------|
| Operating Income (Rs. crore) | 188.66 | 175.58 | 251.44 |
| PAT (Rs. crore) | 79.04 | 74.50 | 31.19 |
| OPBDIT/OI (%) | 13.45% | 9.76% | 11.40% |
| PAT/OI (%) | 41.89% | 42.43% | 12.41% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.09 | 0.11 | 0.10 |
| Total Debt/OPBDIT (times) | 3.00 | 4.52 | 2.92 |
| Interest Coverage (times) | 3.91 | 3.09 | 7.48 |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| S.No. | Instrument | Current Rating (FY2023) | | | Rating History for the Past 3 Years | | | |
|-------|----------------|-------------------------|--------------|--------------------|-------------------------------------|------------------------------|-------------------------------|---------------------|
| | | Type | Amount Rated | Amount Outstanding | Current Rating | FY2022 | FY2021 | FY2020 |
| | | | | | 19-May-22 | 09-Aug-21 | 3-Apr-20 | 13-Jun-19 |
| 1 | Fund Based/CC | Long-term | 13.20 | - | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) |
| 2 | Fund Based/TL | Long-term | 9.01 | 9.01 | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | - |
| 3 | Non-fund Based | Short-term | 2.00 | - | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 | [ICRA]A2 |
| 4 | Unallocated | LT/ST | 0.79 | - | [ICRA]BBB+ (Stable)/ [ICRA]A2+ | [ICRA]BBB+ (Stable)/[ICRA]A2 | [ICRA]BBB+ (Stable)/ [ICRA]A2 | - |

Amount in Rs. crore

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|----------------|----------------------|
| Fund Based/CC | Simple |
| Fund Based/TL | Simple |
| Non-fund Based | Very Simple |
| 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 | NA | NA | 13.20 | [ICRA]BBB+ (Stable) |
| NA | Fund Based/TL | 2019 | NA | 2024 | 9.01 | [ICRA]BBB+ (Stable) |
| NA | Non-fund Based | NA | NA | NA | 2.00 | [ICRA]A2+ |
| NA | Unallocated | NA | NA | NA | 0.79 | [ICRA]BBB+ (Stable)/ [ICRA]A2+ |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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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