

March 13, 2023

Sigma Electric Manufacturing Corporation Private Limited: Ratings reaffirmed; outlook revised to Stable

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	157.50	157.50	[ICRA]A-/[ICRA]A2+ reaffirmed; Outlook revised to Stable from Positive
Total	157.50	157.50	

*Instrument details are provided in Annexure-I

Rationale

The revision in the rating outlook to Stable from Positive takes into account the tepid near-term demand outlook on the back of expected softer trend in the global economy, which might have an impact on the company's scale of operations and consequently the level of profits and cash accruals. Nonetheless, while reaffirming the ratings, ICRA considers the strong business profile, driven by its established position in the electrical castings industry for over twenty years and a diversified product portfolio, which provides comfort. The company witnessed healthy revenue growth of ~34% in FY2022, backed by continued healthy demand in the power transmission & distribution as well as private label segments. However, in the current fiscal, the revenues are estimated to remain almost flat with an expected increase of ~5-6%. The operating margins, nonetheless, are expected to remain comfortable at ~13-14%. The company derives majority of its revenues from exports to Sigma Electric Manufacturing Corporation, its Group company in the US, which manages its marketing and distribution in the country. Sigma optimises cost and production by maintaining an efficient supply chain and investing in technology, inventory management software and implementing lean manufacturing across its units. The ratings are also supported by its reputed client profile (mostly in the US), which includes large home improvement companies, appliance manufacturers, engineering and power transmission and distribution companies.

The ratings, however, remain constrained on account of the leveraged capital structure due to interest-bearing CCDs, which were infused after the acquisition by Argand Partners (New York-based private equity fund). Significant interest outflow in CCDs impacts the net margins and fund flow from operations, leading to modest interest coverage ratios. However, ICRA draws comfort from the option of deferment of interest payment on CCDs to the parent entity and subordination of such outflows to domestic bank repayments. The working capital cycle also remained stretched with the net working capital to the operating income (NWC/OI) ratio of 37% in FY2022, primarily owing to the stretched receivable cycle and high inventory. Further, the company remains vulnerable to commodity prices, although it can pass on the increase in raw material costs with a lag. Sigma is also vulnerable to forex movements as 90% of its revenues are in the form of exports to the parent entity that are impacted by significant mark-to-market gains or losses.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile – The company reported healthy revenue growth of ~34% in FY2022 on the back of improved performance from all the major segments, including electrical and industrial equipment. Further, the operating margins of the entity have been largely stable at ~13-15% over the past few years. ICRA expects mid-single digit growth in operating income and the operating margins to remain at similar levels in FY2023. However, the net margins remain low owing to a significant

interest outgo towards CCDs. The tepid near-term demand outlook on the back of expected softer trend in the global economy might have an impact on the company's scale of operations for the next few quarters.

Established position in the castings industry spanning over 20 years with a strong market position – Incorporated in 1996, the company manufactures castings for electrical components and fittings used in commercial and residential projects as well as for power transmission and distribution. It also caters to custom business requirements for industrial equipment, home appliances and instrumentation. It is a market leader in the US across low voltage electrical product segments, including weatherproof boxes (estimated ~75% shares of die-cast weatherproof boxes), power transmission and distribution cut-outs, and connectors (estimated ~80% share in cutouts).

Diversified product portfolio – The company is a large integrated player in the US, with a range of castings in all non-ferrous metals in addition to iron and steel. The core electrical segment comprises ~80% of the consolidated revenues of the entity and supplies products such as fitting, connectors, couplings, weatherproof box, flip covers, lamp holders, lamp holder covers and lighting kits, connectors and fittings, among others, to the retail electrical segment, private labels and the power transmission & distribution sector. The custom products cater to the indigenous requirements of the industrial segment, instrumentation and appliance manufacturing segments.

Reputed client base – The Indian entity derives ~90% of its revenues from exports to its US entity, which carries out end-customer sales. Sigma has a reputed customer base that comprises large engineering companies, home improvement stores, home appliance companies and power transmission companies. Its top-three customers generated 34% of its revenue in FY2022 and 6M FY2023. The concentration risk is mitigated by Sigma's established relationships with them and the large size of these corporations.

Credit challenges

Leveraged capital structure due to interest-bearing CCDs; mitigated by interest payment subordination – The major portion of Sigma's total debt (82% of the FY2022 debt) pertains to CCDs and ECBs from its parent entity. The principal amount of the CCD infused in the Indian entity in FY2017 was Rs. 390.4 crore at an annual interest rate of 14%. The outstanding debt component of CCDs was Rs. 420.3 crore as on March 31, 2022. ICRA draws comfort from the option of deferment of interest payment on CCDs to the parent entity by agreement between the two entities and subordination of such outflows to domestic bank repayments.

High working capital cycle – The working capital cycle of the company remains high as it exports ~90% of its products to its sister concern in the US at an extended credit period of 120-130 days. The creditors consist of raw material imports and domestic suppliers that are paid in three to four months, depending on the supplier and country of import. The company maintains an inventory of two to three months, which primarily constitutes die castings manufactured by Sigma, as per client specifications.

Vulnerable to changes in raw material prices and forex movements – The entity derives ~90% of its revenues from exports to its Group entity in the US, which exposes Sigma to forex movements and significant mark-to-market gains or losses that impact its net profitability. The company is vulnerable to commodity prices, although it can pass on the same with a lag.

Liquidity position: Adequate

The liquidity profile remains adequate, supported by Sigma's comfortable margins and healthy cash flow from operations of Rs. 60-65 crore in FY2022. The cash and liquid investment balance stood at Rs. 31.7 crore as on December 31, 2022. The company has modest capex plans, which will be funded through internal accruals. ICRA also draws comfort from the option of deferment of interest payment on CCDs to its parent entity by agreement and subordination of the same to bank repayments.

Rating sensitivities

Positive factors – The ratings upgrade would be driven by significant improvement in scale of operations, while maintaining its profitability margin, and improvement in the working capital cycle, resulting in healthy improvement in debt coverage

metrics and liquidity position, on a sustained basis. A specific credit metric for an upgrade is if Total Debt/OPBITDA is below 2.0 times, on a sustained basis.

Negative factors – Pressure on the ratings may emerge, if there is a pressure on the company's revenues and profitability or if there is an elongation in its working capital cycle, on a sustained basis. Further, the ratings could be impacted if there is any large debt-funded capex which could adversely impact the credit metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	None
Consolidation/Standalone	Standalone

About the company

Sigma Electric Manufacturing Corporation Private Limited is a Pune-based company established in 1996 by Mr. Sajjan Kumar Agarwal. During FY2008, Goldman Sachs Capital Partner Fund, a private equity (PE) fund, acquired the majority equity stake (80.11%) in Sigma. In October 2016, Argand Partners LLP, a New York-based PE firm bought out Goldman Sachs' ~80% stake and Mr. Sajjan Agarwal's equity of ~20% to acquire 100% ownership of the company.

Sigma manufactures castings for the electrical and fittings industry, connectors and cut-outs for the power transmission & distribution sector, and customised products for the industrial, instrumentation and appliances segments. It uses a wide range of material grades such as aluminium, zinc, copper, iron and steel. Sigma has 11 manufacturing units across India, with six in Pune (Maharashtra) and five in Jaipur, with a total installed production capacity of 40,164 metric tonnes per annum as on March 31, 2022. It is an export-oriented company with nearly 90% of its exports made to Sigma Electric Manufacturing Corporation, a Group entity in Garner, the US. The company services its North American customer base from a 1,80,000-square-foot warehouse and distribution centre in Garner, North Carolina, the US.

Key financial indicators (audited)

Sigma (Standalone)	FY2021	FY2022
Operating income	1090.8	1467.1
PAT	-27.0	44.4
OPBDIT/OI	13.2%	14.4%
PAT/OI	-2.5%	3.0%
Total outside liabilities/Tangible net worth (times)	2.0	1.8
Total debt/OPBDIT (times)	4.4	2.9
Interest coverage (times)	2.1	3.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2021
				March 13, 2023	April 19, 2022			
1 Fund based/non-fund based	Long term/short term	157.50	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Positive)/[ICRA]A2+	-	[ICRA]A-(Positive)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/non-fund based	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/non-fund based	NA	NA	NA	157.50	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 71501100

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 61693328

priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala

+91 33 7150 1111

sumit.jhunjhunwala@icraindia.com

Prerna Aggarwal

+91 124 4545380

prerna.aggarwal1@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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.