

April 18, 2023

M.G.M Springs Private Limited: Long-term rating upgraded to [ICRA]BBB (Stable); Short-term rating upgraded to [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based- Cash Credit	5.20	5.20	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Short term - non-fund based	3.25	3.25	[ICRA]A3+; Upgraded from [ICRA]A3
Long term – Unallocated	1.55	1.55	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Total	10.00	10.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Stumpp Schuele & Somappa Springs Private Limited (4SPL), Stumpp Schuele and Somappa Auto Suspension Systems Private Limited (5SPL) and MGM Springs Private Limited (MGMSPL), given the common promoters and the close operational and financial linkages among these entities. 4SPL, 5SPL and MGMSPL are hereby together referred to as the SSS Group.

The upgrade in the ratings outstanding on the bank lines of SSS Group considers the improvement in the financial risk profile in FY2023e and expectation of a sustained performance in the near to medium term driven by its established market position and stable demand outlook for domestic two-wheeler (2W) and passenger vehicle (PV) segments. The group's performance during 9M FY2023 was marked by strong growth in revenues (up ~31% YoY) and operating margin (10.3% in 9M FY2023 vis-à-vis 6.6% in FY2022), supported by healthy end-user demand. Higher scale of operations coupled with softened raw material prices supported an improvement in margins thus resulting in overall improvement in its credit profile and liquidity profile. The Group's coverage indicators are comfortable with Net debt/OPBITDA of 1.6 times as of December 2022 (vis-à-vis 3.4 times as on March 31, 2022), and interest coverage at 3.9 times in 9M FY2023 (vis-à-vis 2.1 times in FY2022), on the back of healthy operating profits. The ratings remain supported by other factors like Group's healthy market position in the domestic spring market, vast experience of the promoter, strategic location of its manufacturing plants in proximity to its customers, a reputed client profile, strong technology tie-up and a healthy share of business with most of its key clients.

The ratings are, however, constrained by the vulnerability of the Group's revenues and earnings to the inherent cyclicity in automotive demand and the fluctuations in raw material prices and foreign exchange rates. The ratings also consider the high competition in the domestic spring business, given the moderate value addition, which coupled with high dependence on the Original equipment manufacturer (OEM) segment, results in relatively less pricing power for the Group that consequently impact the margins. ICRA also notes that there are investment needs in the other group businesses; any large cash outflow towards such investments will be a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectations that the Group shall continue to benefit from the extensive experience of the promoters in the spring industry, its established association with clients and favourable demand.

Key rating drivers and their description

Credit strengths

Established presence in the Indian spring industry – The SSS Group is one of the leading players in domestic spring industry. The Group benefits from the vast experience of its promoters, the strategic plant locations (in proximity to clients), and technological support from globally renowned players. The Group manufactures and sells different types of springs and stabilisation bars, which find application in 2Ws, PVs, commercial vehicles (CVs), tractors, aircraft, the railways, stationery engines, communication equipment, electrical and electronics, as well as defence industry. 4SPL and MGMSPL manufacture metallic springs of all varieties, including helical springs, valve springs, leaf springs, tension springs, wire forms, flat springs, spring rings, spring washers, etc, for various industries., and supply to multiple OEMs (either directly or through tier-1 players) in the auto industry. 5SPL's products include cold coils, hot coils and stabilisation bars that primarily find application in the PV segment.

Strong operational profile marked by a reputed client profile; proximity of plants to OEMs provides competitive advantage – The Group has a reputed client base of OEMs and tier-1 auto component suppliers. Some of its major customers include Maruti Suzuki India Limited, Hero MotoCorp Limited, Honda Cars India Limited, TVS Motor Company Limited, Endurance Technologies Limited, Brakes India Private Limited, Tata Cummins Private Limited, etc. The Group is the single source for several products/models for OEMs and its manufacturing plants are spread across multiple locations in India, which are in proximity to most of its customers. In comparison, its close competitors have limited presence in terms of geographical footprint as well as capacity, which is reflected in the Group's healthy market position. This has aided in continuing its position as one of the largest spring manufacturers in India.

The group's performance during 9M FY2023 was marked by strong growth in revenues (up ~31% YoY) and operating margin (10.3% in 9M FY2023 vis-à-vis 6.6% in FY2022), supported by healthy end-user demand. Higher scale of operations coupled with softened raw material prices supported an improvement in margins thus resulting in overall improvement in its credit profile and liquidity profile. The Group's coverage indicators are comfortable with Net debt/OPBITDA of 1.6 times as of December 2022 (vis-à-vis 3.4 times as on March 31, 2022), and interest coverage at 3.9 times in 9M FY2023 (vis-à-vis 2.1 times in FY2022), on the back of healthy operating profits.

Favourable demand outlook – The Group's products are largely dependent on OE demand, making its performance susceptible to the demand in the domestic automotive industry. Following two years of subdued auto demand amid the pandemic, the auto sector has seen sharp demand recovery in the current fiscal. Factors like improving economic activities, preference for personal mobility, stable monsoons, rising disposable income of consumers, relatively better supply chain etc shall support vehicle sales, which shall accordingly benefit the SSS Group over the near to medium term. The Group is also enhancing its focus on exports, which coupled with the model launches of OEMs, shall support its revenues in the near to medium term.

Credit challenges

Vulnerability of revenues and earnings to the cyclicity in automotive demand and volatility in input prices - The Group derives over 90% of its revenues from the automotive segment, with the bulk of its revenues coming from the PV and 2W segments. As the replacement share of revenues is minimal, any slowdown or cyclicity in auto demand impacts the Group's revenues and earnings, as observed in the last two years. The earnings are also affected by any sharp volatility in raw material prices and forex rates. While the company has pass-through clauses with its clients, its margin contracted in FY2022 due to the sharp and rapid increase in raw material prices, apart from the spike in other operating costs. However, with the softening of RM prices and higher scale of operations leading to better fixed cost absorption, the margins have improved in FY2023.

High competitive intensity- The domestic spring industry is highly competitive, given the moderate value addition and presence of multiple players. While the competitive intensity is expected to remain high, going forward, Group's established presence and diversified product portfolio within the spring business mitigates the risk to an extent.

Liquidity position: Adequate

The Group's liquidity position is adequate, with improving cash flow from operations unutilised working capital facilities of over Rs. 28.0 crore as on January 31, 2023. The Group has working capital utilisation of around 83% for the last 12-month period (between February 2022 to January 2023); however, in December 2022, the Group had taken additional working capital facilities of Rs. 15 crore, which led the utilisation down to 68%. The company had free cash and bank balance of Rs. 1.60 crore as on January 2023. Additionally, the company is expected to generate healthy cash accruals, going forward, which is likely to further strengthen its liquidity profile. Against these sources of cash, the Group has Rs. 4.0 crore debt repayment on its existing loans in Q4 FY2023, Rs. 15.4 crore in FY2024 and Rs. 8.8 crore in FY2025. The Group has capex plans of around Rs. 35 crore towards capacity expansion in FY2024, funded through internal accruals and term loans. ICRA expects the Group to meet its near-term and medium-term commitments through internal sources of cash and debt, and financial support from promoters, if required.

Rating sensitivities

Positive factors – ICRA could revise the rating if the group demonstrates substantial growth in revenue and profitability along with an improvement in its liquidity profile.

Negative factors – Negative pressure on the ratings could arise from sharp deterioration in debt protection metrics on the back of weak earnings or large investments in other group entities, leading to Total Debt / OPBDITA of more than 2.5x on a sustained basis. The Group's inability to improve its liquidity position can also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Consolidation and Rating Approach
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of 4SPL, 5SPL and MGMSPL, given their close operational and financial linkages and common promoters.

About the company

The Stumpp Schuele and Somappa Group manufactures and sells 4,000 types of metallic springs and stabilisation bars across several applications, with about 90% of its revenues coming from the auto industry. The entities, 4SPL and MGMSPL, manufacture metallic springs of all varieties, including helical springs, valve springs, leaf springs, tension springs, wire forms, flat springs, spring rings, spring washers, for various industries. While 5SPL's product portfolio is divided into three segments—cold coils, hot coils and stabilisation bars. The firms, 4SPL, 5SPL and MGMSPL, together have an established customer base, comprising Maruti Suzuki India Limited, Hero MotoCorp Limited, Honda Cars India Limited, TVS Motor Company Limited, Bosch Limited, Endurance Technologies Limited, Brakes India Private Limited and Tata Cummins Private Limited.

Mr. Somappa, the promoter of the Group, along with his two German partners, Stumpp and Schuele, established the business in 1960 under the name, Stumpp Schuele & Somappa Private Limited (3SPL). The firm, 3SPL was the first spring manufacturing unit in India. After the dilution of the Foreign Exchange Regulation Act (FERA) in the 1970s, Mr. Stumpp's and Mr. Schuele's shareholding in the company was reduced to 26%. Later, Mr. Stumpp and Mr. Schuele sold their shares to M/s Kern Leibers GmbH, Germany, subsequent to which it was acquired by Mr. M.R. Ramesh in 2007. Currently, Mr. Ramesh and family own the Group and there are no linkages to the erstwhile German promoters. The Group is currently managed by the third generation of Mr. M. R. Ramesh's family. Mr. M. R. Satish is the current Chairman of the Group, spearheading the business.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	9M FY2023*
Operating income	461.6	585.0	560.4
PAT	10.2	4.9	24.3
OPBDIT/OI	9.7%	6.6%	10.3%
PAT/OI	2.2%	0.8%	4.3%
Total outside liabilities/Tangible net worth (times)	2.3	2.6	2.2
Total debt/OPBDIT (times)	2.4	3.7	1.7
Interest coverage (times)	2.7	2.1	3.9

Source: Company, Annual Report and ICRA Research; Amount in Rs crore; All ratios are as per ICRA's calculations; PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Total debt includes lease liabilities; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on December 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 18, 2023	Sept 30, 2022	Jun 22, 2021	Jun 22, 2020
2	Fund based-Cash Credit	Long term	5.20	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB- (Stable)
3	Non-fund based	Short term	3.25	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A4
4	Unallocated	Long term	1.55	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based - Cash Credit	Simple
Short term - Non-fund based	Very Simple
Long term – 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 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	Long term - Fund based cash credit	NA	10-12%	NA	5.20	[ICRA]BBB (Stable)
NA	Short term - non-fund based	NA	NA	NA	3.25	[ICRA]A3+
NA	Long term – Unallocated	NA	NA	NA	1.55	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Stumpp Schuele and Somappa Springs Private Limited	NA	Consolidated
Stumpp Schuele and Somappa Auto Suspension Systems Private Limited	NA	Consolidated
M.G.M Springs Private Limited (Group company with common promoters)	NA	Consolidated

Note: ICRA has taken a consolidated view of the above mentioned companies while assigning the ratings.

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