August 31, 2023

Savera India Riding Systems Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Cash credit	10.00	10.00	[ICRA]BB (Stable) reaffirmed
Long-term/Short-term – Unallocated	5.00	5.00	[ICRA]BB (Stable)/[ICRA]A4 reaffirmed
Total	15.00	15.00	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Savera India Riding Systems Company Private Limited's (SRPL) modest, though improving, scale of operations and a moderate operating profit margin. The ratings continue to factor in the customer concentration risk with the top five customers accounting for 89% of the total sales, constraining profitability due to the limited bargaining power with large and established players. The ratings further factor in the exposure to the cyclicality in the real estate and the steel sectors, besides the susceptibility of its profitability margins to competition from low-cost Chinese products, especially rail guides, and the adverse fluctuation in raw material prices.

The ratings, however, favourably factor in the established track record of the promoters in manufacturing elevator guide rails and allied products and its association with well-established elevator manufacturing companies. The capital structure and coverage indicators remain comfortable with low debt levels and a strengthened net worth position. Further, the company is expected to ramp up its operations, going forward, on the back of a healthy order inflow, supported by capacity expansion. ICRA also takes comfort from the support of the holding company - Perfiles Especiales S.L. (PESL; part of Spain-based Savera Group - in the form of technology transfer as well as financial assistance through equity infusion and the ECBs extended in FY2019 and FY2023.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that SRPL will continue to maintain its revenue and profitability, supported by its association with well-established elevator manufacturing companies.

Key rating drivers and their description

Credit strengths

Extensive experience and support from promoter Group – SRPL was incorporated in March 2005 by Spain-based Savera Group and its Indian promoters - Mr. Vinay Kothari and Mr. Girish Jain. In FY2023, Mr. Girish Jain sold his stake to the Savera Group. SRPL receives financial as well as operational support in the form of technology transfer from Perfiles Especiales Selak S.L. (PESL) - the holding company (part of the Savera Group).

Reputed clientele base - The company's clientele includes reputed names such as Schindler India Pvt. Ltd., Otis Elevator Company Pvt Ltd, Mitsubishi Elevator India Private Limited etc., which ensures repeat orders from such clients. With the recovery in the end-user real estate segment, the demand prospects remain favourable for elevator manufacturers and thus, for SRPL.

Comfortable capital structure and coverage indicators- The company's capital structure continued to be comfortable with the strengthening of the net worth position to Rs. 31.0 crore as on March 31, 2023 and limited debt requirements. The gearing stood at 0.7 times as on March 31, 2023 (P.Y. 0.4 times as on March 31, 2022). The coverage indicators were comfortable, given its low debt and marginal interest outgo, with interest coverage of 8.8 times and TOL/TNW of 1.0 times as on March 31, 2023. Going forward, the capital structure and coverage indicators are expected to remain comfortable with limited debt requirements.

Credit challenges

Range-bound scale of operations and modest operating margin profile - The company's operating income had remained in the range of Rs. 70-100 crore for the last five years till FY2021 mainly because the order inflow depends on the cyclicality associated with the real estate and the steel sectors. The company logged a revenue of Rs. 152.3 crore in FY2023, which, though modest, was better than the previous fiscals. The company is expected to ramp up its operations in the current fiscal due to a healthy order inflow as well as increased capacity. The company has a modest operating margin profile in the range of 6-8% due to high volatility in raw material prices.

Limited bargaining power with well-established elevator manufacturing companies - The company has established linkages with reputed elevator companies and has received repeat orders. However, the high customer concentration with the top five customers accounting for 85-90% of the total sales limits SRPL's bargaining power, thereby constraining the profitability.

Exposure to cyclicality associated with real estate and steel sectors – The rail guides manufactured by SRPL are used by elevator companies. Hence, the demand is directly related to the construction and the real estate sectors, making the company's revenue vulnerable to the cyclicality in the real estate industry. The sales realisation also depends on the price of raw material, that is T-sections made of scrap and sponge iron. Although the prices generally move in tandem, there could be short-term mismatches in raw material and end-product prices, which are linked to the commoditised steel prices, leading to volatility in margins. ICRA believes that the future pace of revenue growth will remain contingent on these sectors and will be a key rating monitorable.

Intense competition from low-cost Chinese products - The company faces intense competition from low-cost Chinese manufacturers. However, SRPL has managed to secure its position in the market due to the superior quality of its products and an established clientele.

Liquidity position: Stretched

SRPL's liquidity is stretched, notwithstanding the Rs. 3.6-crore cash and bank balance (as of March 31, 2023), as there is limited cushion available in the form of undrawn working capital limits. The long-term debt repayment obligations are modest (Rs. 0.96 crore) for FY2024, which can be met from its cash accruals.

Rating sensitivities

Positive factors - ICRA is likely to upgrade SRPL's rating if it demonstrates a consistent revenue growth while improving the profitability indicators. This, along with an improved liquidity and net worth position on a sustained basis, would support an upgrade.

Negative factors - The ratings may be downgraded if there is sharp decline in sales and profitability, weakening the liquidity profile and the key credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not Applicable

Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SRPL

About the company

SRPL, incorporated in March 2005, commenced commercial operations in May 2007. It is a joint venture between its Indian promoter Mr. Vinay Kothari and the Spain-based Savera Group (through its wholly-owned subsidiary Perfiles Especiales Selak S.L.). The Spanish company increased its stake in SRPL from 46% to 54% in FY2019, and further to 73% in FY2023 after Indian promoter, Mr. Girish Jain, sold his stake in FY2023.

SRPL manufactures elevator guide rails, an essential part of most elevator and lift shafts. The manufacturing activities are carried out at a facility in Taloja MIDC in the Raigad district of Maharashtra. The company also utilises the Kancheepuram (Tamil Nadu) plant of its sister concern - Savera Kothari India Private Limited (SKIPL) - and pays processing charges for using its facilities. The company has an aggregate installed capacity of 26,000 metric tonnes per annum (MTPA).

Key financial indicators (audited)

	FY2021	FY2022	FY2023*
Operating income	76.2	137.1	152.3
PAT	2.6	9.0	4.6
OPBDIT/OI	5.9%	9.0%	6.2%
PAT/OI	3.5%	6.5%	3.0%
Total outside liabilities/Tangible net worth (times)	1.2	0.9	1.0
Total debt/OPBDIT (times)	2.8	0.9	2.4
Interest coverage (times)	4.7	19.0	8.8

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

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 Mar 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & Rating on FY2021
					Aug 31, 2023	May 27, 2022	-	Feb 26, 2021
1	**Cash credit**	Long Term	10.00	-	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	-	**[ICRA]BB- (Stable)**
2	**Bill discounting**	Short Term	0.00	-	-	-	-	**[ICRA]A4**
3	**Letter of credit**	Short Term	0.00	-	-	-	-	**[ICRA]A4**
4	**Unallocated**	Long Term	0.00	-	-	-	-	**[ICRA]BB- (Stable)**
5	**Unallocated**	Long-Term/ Short-Term	5.00	-	**[ICRA]BB (Stable)/ [ICRA]A4**	**[ICRA]BB (Stable)/ [ICRA]A4**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	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 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	**Cash credit**	NA	NA	NA	10.00	[ICRA]BB (Stable)
NA	**Unallocated limits**	NA	NA	NA	5.00	[ICRA]BB (Stable)/[ICRA]A4

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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