

October 10, 2023

Sigma Automotive Materials Private Limited: [ICRA]BBB-(Stable)/[ICRA]A3; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/ Export Packing Credit	15.00	[ICRA]BBB-(Stable); assigned
Long-term Fund-based/ Term Loans	8.36	[ICRA]BBB-(Stable); assigned
Long-term/Short-term/ Unallocated	11.64	[ICRA]BBB-(Stable)/[ICRA]A3; assigned
Total	35.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Sigma Automotives Materials Private Limited (SAM) factor in its strengths as part of the Sigma Group, including its established presence in the global automotive component market and the extensive experience of its promoters. The rating favourably factors in the expected financial support from the Group's flagship entity, Sigma Corporation India Limited (SCIL; rated [ICRA]BBB+(Stable)/A2+), in case a need arises. The rating further factors in SAM's reputed client base, healthy order book and its in-house capabilities in designing and manufacturing quality components.

The rating is, however, constrained by the company's modest scale and moderately weak debt coverage metrics. ICRA further factors in the competitive nature of the industry as well. The company's margins remain exposed to fluctuations in key input costs. However, its ability to pass on the price increase to most of its clients mitigates the risk to some extent. Further, SAM's revenues and profitability remain vulnerable to forex fluctuations as a major part of its revenue is export driven. ICRA notes that the company hedges most of its receivables through forward contracts to protect itself from any sudden, adverse currency movements.

The Stable outlook on SAM's rating reflects ICRA's opinion that the company's revenue and profit growth would be supported by end-user demand and its healthy export order book.

Key rating drivers and their description

Credit strengths

Experienced promoters with extensive experience in auto components industry – SAM is part of the Sigma Group, which has an extensive experience in the automotive space. The Group is managed by second and third-generation promoters, who are supported by a professional management team. The promoters have been present in the auto-ancillary space through Group companies and erstwhile joint ventures (JVs) with foreign entities, which has strengthened their foothold in this space over the years. The Group is present across a variety of products and segments ranging from automotive rubber-to-metal bonded anti-vibration components and sheet metal components to machining and forging in the export and domestic markets. It has been operating in the US and European automotive replacement markets for over 50 years. The promoters' extensive experience and understanding of the target markets has helped them forge strong relationships with customers and gain incremental business over the years as tier-I and II suppliers to key Original Equipment Manufacturers (OEMs).

Financial flexibility as part of the Sigma Group – ICRA expects SCIL to support SAM financially, as and when needed. Moreover, SCIL has already extended corporate guarantee for the existing debt facilities of SAM, indicating a track record of support.

Reputed client base and healthy order book – SAM caters to both the commercial vehicle (CV) and passenger vehicle (PV) segments. The company has a reputed client base, which includes European customers like the Vibracoustic Group and BOGE, as well as domestic clients like Continental and Nidec with an established track record of providing repeat business. The company has a healthy order book, which includes a recent, large order from a key US client, which will be a new geographical addition. As per FY2023 numbers, 90% of the company's revenue is derived from exports. In both the domestic and export segments, the company is a tier-II supplier with its customers being OEMs such as Mercedes, BMW, GM, and Ford, among others.

Credit challenges

Modest scale of operations and moderately weak coverage indicators – The company's revenue stood at a modest Rs. 90.5 crore in FY2023, which increased by ~32% from Rs. 69 crore in FY2022. The overall revenue base is expected to grow on the account of healthy revenue visibility, but the overall scale will remain modest in the near to medium term. Also, the company's coverage indicators remain moderately weak as characterised by TD/OPBIDTA of 3.13 times as on March 31, 2023.

Vulnerability of earnings to fluctuations in input prices and forex rates amid competitive pressures – SAM's profit margins remain susceptible to fluctuations in the prices of its key inputs. This is largely mitigated by SAM's ability to pass on the price changes to most of its end-customers. Despite the company's established position and relationships with its export clients, it is subject to competition from other entities. Further, as most of its revenues are denominated in foreign currencies (Euro in particular), SAM's revenues and profitability over the years have remained susceptible to the movements in forex rates. While SAM hedges part of its exposure at the Group's corporate level, any adverse exchange rate movements may impact its revenues and margins adversely.

Liquidity position: Stretched

The liquidity of the company is stretched given its moderate cash flow from operations and limited cushion in its working capital limits. In the past 12 months ending August 2023, the average cushion in the limits of the company stood at ~Rs. 2.7 crore. In addition, the company maintains limited free cash balances on its books and has sizeable debt repayments of Rs. 2 crore in FY2024. The company plans to incur capex of ~Rs. 10 crore in FY2024 and ~Rs. 6 crore in FY2025 largely towards infrastructure required for new orders received. In addition to its own cash accruals, its funding requirement is also expected to be met by support from the promoters and term loans from the banks.

Rating sensitivities

Positive factors – ICRA could upgrade SAM's ratings if there is a substantial improvement in its revenues and earnings, resulting in improved debt coverage metrics. Specific credit metrics that may lead to a rating upgrade include TD/OPBIDTA less than 4.0 times on a sustained basis. Improvement in the credit profile of the Group's flagship company, SCIL, can also lead to an upgrade.

Negative factors – Pressure on SAM's ratings could arise if there is a material decline in revenues or profit margins adversely impacting the debt coverage metrics and liquidity. Any change in the arrangement with the Group company, SCIL, in providing timely funding support, or weakening in its credit profile, may also lead to a rating downgrade. Specific credit metrics that may lead to a downgrade include DSCR lower than 1.1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology on Auto Component Suppliers
Parent/Group support	Yes. SCIL has a track record of extending support to SAM and ICRA expects SCIL to extend its funding support, as and when needed.
Consolidation/Standalone	Standalone

About the company

Sigma Automotive Materials Private Limited was incorporated in 2005. The company started its operations as a trading entity that used to inspect, quality check, pack and load products for Vibracoustic India and BOGE, with whom the Sigma Group held joint ventures earlier. Gradually, the company transitioned towards manufacturing, and has now been exporting machined products for the last 7-8 years.

SAM's range of product types includes automotive machined components, machined iron castings, machined forgings, machined extrusions, machined aluminum pressure die and gravity castings, with heat treatment, e-coating and plating, etc. The company's manufacturing plant is in Manesar, Haryana.

The company is a tier-II supplier in both export and domestic markets, with its eventual customers being OEMs such as Mercedes, BMW, GM, and Ford, among others. As per FY2023 numbers, 90% of the company's revenue is derived from exports.

Key financial indicators (audited/provisional)

SAM Standalone	FY2021	FY2022	FY2023*
Operating income	48.8	68.6	90.5
PAT	1.9	5.0	4.9
OPBDIT/OI	10.5%	12.3%	10.0%
PAT/OI	3.8%	7.2%	5.4%
Total outside liabilities/Tangible net worth (times)	1.7	1.5	1.4
Total debt/OPBDIT (times)	3.8	2.3	3.1
Interest coverage (times)	5.0	10.1	8.8

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

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		
	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) *	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				10-Oct-23	-	-	-
1 Export Packing Credit	Long Term	15.0	0.00	[ICRA]BBB- (Stable)	-	-	-
2 Term Loan	Long Term	8.36	5.26	[ICRA]BBB- (Stable)	-	-	-
3 Unallocated	Long Term/Short Term	11.64	0.00	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-

Source: Company, *Outstanding as on March 31st, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export Packing Credit	Simple
Term Loan	Simple
Unallocated	Not Applicable

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	Export Packing Credit	-	NA	-	15.00	[ICRA]BBB-(Stable)
NA	Term Loan	March 2023	NA	March 2027	8.36	[ICRA]BBB-(Stable)
NA	Unallocated	-	-	-	11.64	[ICRA]BBB-(Stable)/[ICRA]A3

Source: Company

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

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

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Branches



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