April 05, 2024

Sam Turbo Industry 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	3.00	3.00	[ICRA]BBB (Stable); reaffirmed
Long term – Fund based – Term Loan	4.26	0.90	[ICRA]BBB (Stable); reaffirmed
Short-term – Fund based – Export Packing Credit	0.00	4.00	[ICRA]A3+; reaffirmed
Short term – Non-Fund based – Bank Guarantee	4.27	8.00	[ICRA]A3+; reaffirmed
Short term – Non-Fund based – Others	12.65	13.00	[ICRA]A3+; reaffirmed
Short term - Unallocated	5.82	1.10	[ICRA]A3+; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Sam Turbo Industry Private Limited (STIPL) and its two subsidiaries, Samsen Papers Private Limited (SPPL) and Samsen Special Castings Private Limited (SSCPL), considering the strong operational, managerial and financial linkages including fungibility of funds, among the three companies.

The ratings continue to factor in the established track record of the company and the extensive experience of the promoters in the pump industry, which have supported its business over the years. The company is likely to maintain a steady growth in its operating income in FY2024 and FY2025 along with a stable profitability, though with some volatility. STIPL derives significant benefit from its integrated operations, which include its steel foundry and captive power generation. The ratings are supported by the company's established brand presence on the back of a diversified product portfolio and a wide distribution network. Further, the ratings factor in the comfortable capital structure and debt protection metrics, which are likely to sustain in the near term.

The ratings, however, are constrained by the modest size of the company's business, as reflected by an operating income of Rs. 161.3 crore in FY2023, which could adversely impact its financial risk profile in a highly fragmented and competitive industry. Additionally, the company's profitability is exposed to the volatility in raw material prices as it is not able to timely pass on the price hike to its customers. In FY2021, the company's operating profit margin declined sharply on account of high raw material prices during the year, against which the price increase in its products was implemented with a delay of more than three months. ICRA notes that the company is undertaking a capex in its subsidiary for a packaging paper facility, which is unrelated to its current business and has been delayed with some cost escalation. The company is exposed to the project execution risk as any further time overrun could result in cost escalation, thereby impacting its liquidity. As the company is new in the proposed business, its ability to scale up operations would remain a challenge, going forward.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company is likely to sustain its operating metrics even as its revenue growth may moderate. Further, the outlook underlines ICRA's expectation that the company's ongoing and incremental capex, or increased working capital requirements, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating. Further, the company's comfortable liquidity on the back of large free cash balances would continue to support its financial risk profile.

Key rating drivers and their description

Credit strengths

Established track record of the company and extensive experience of promoters in the business – STIPL is involved in designing, manufacturing, supplying, exporting and servicing pumps for essential industries in India since 1971. It has an established track record of manufacturing various industrial pumps across industries. The company has been able to establish itself as a reputed player in the industry with a diversified product profile (conforming to various domestic and international specifications), its quality certifications and dealer/distributor network.

Integrated nature of operations – Apart from the pump manufacturing facility, the company has a captive steel foundry, which manufactures castings required in pumps. Most of the items in a pump are steel castings of various shapes and designs. The capacity of the foundry is 5,400 MTPA, which is adequate to support the company's pump manufacturing facility. Additionally, STIPL is equipped with necessary machines and techniques required to check the metallurgical specifications to ensure precise chemical composition. Further, the company owns windmills, which support more than 90% of its power requirements. Overall, an integrated nature of operations supports the company's business and financial risk profiles, given the high volatility in raw material prices and demand.

Established brand and distribution network along with a strong customer base – STIPL has an established network of dealers/distributors, which supports its brand, Sam Pumps. The company also makes direct sales to reputed customers like NTPC Limited, Grasim Industries Limited, Hindalco Industries Limited, Vedanta Limited, and SAIL Limited, which mitigates business risks to some extent.

Comfortable capital structure and debt coverage metrics – While the company's operating profitability has remained volatile in the past years, it has been generating stable cash accruals, supported by the non-operating income. The company maintains sizeable free cash balances in fixed deposits and large investments in various financial products, which earn significant income/gains for the company. Though the company is exposed to market risks associated with such financial investments, stable cash accruals have supported the company's comfortable capital structure and debt coverage metrics, with limited debt. The capital structure of the company remained comfortable with a gearing of 0.1 times as on March 31, 2023. Further, the debt coverage metrics remained healthy, as reflected by an interest coverage of 12.8 times and DSCR of 2.2 times in FY2023.

Credit challenges

Modest scale of operations along with volatile and thin profit margins – STIPL's scale of business remains relatively smaller with the pumps business accounting for around Rs. 95.5 crore in FY2023 and Rs. 86.9 crore in 11M FY2024 against an operating income (OI) of Rs. 160.9 crore and Rs. 151.8 crore in FY2023 and 11M FY2024, respectively. The balance constitutes income from the sale of spare parts required in repair and maintenance of pumps. A major part of the company's business comes from domestic sales with exports accounting for less than 10%. In FY2023, the operating income of the company increased sharply over a small base of FY2022, which had declined due to pandemic-induced challenges. The profitability of the company remains thin and volatile, as witnessed in the past years.

Susceptible to volatility in raw material prices and inability to timely pass on the price increase – The key raw materials of the company are metal scrap, pig iron, steel rods, among others. As the key input material remains commoditised in nature, STIPL's profitability remains susceptible to volatility in raw material prices. As witnessed in the past, the company has been unable to timely pass on the sharp increase in raw material prices to its customers, which impacted its profitability in FY2022.

Intense competition and fragmented industry structure – Intense competition from organised and unorganised players in the industrial pumps industry bars the company from commanding premium pricing, limiting its margins.

Risks associated with project execution and business for the proposed new facility – The company is undertaking a capex for a new paper packaging facility in one of its subsidiaries, Samsen Papers Private Limited, which is partially funded by fresh term loans. ICRA notes that the completion of the project has been delayed from the initial scheduled date and there has been a cost escalation, though on account of an increase in scope. Any further delay in completion of the project, resulting in cost overrun would necessitate additional funding support. Moreover, inability of the company to scale up its business, for which it does not have experience, could result in a cash flow mismatch. Nevertheless, healthy liquidity maintained by the company would provide support to an extent.

Liquidity position: Adequate

The liquidity position of the company is adequate with stable cash accruals of around Rs. 10.0 crore likely in FY2024 and FY2025, and large free cash balances of Rs. 46.2 crore maintained in fixed deposits as on March 31, 2023. Moreover, the company has Rs. 3.0-crore cash credit facilities, the average utilisation of which remained at 52% during the 11-month period ended in February 2024. ICRA notes that the large free cash balances are partially on account of stretched creditors. Any moderation in the same could impact the company's liquidity in the future. ICRA also notes that the company has sizeable investments in various financial products including mutual funds and equity, which earn significant non-operating income for the company. However, such investments would remain exposed to market risks. Nevertheless, the company's liquidity would continue to derive comfort from the promoters' need-based support in the form of unsecured loans with flexible terms.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company registers a significant increase in its scale and profitability on a sustained basis while maintaining comfortable liquidity and debt coverage metrics.

Negative factors – The ratings could be downgraded if there is a sharp decline in the company's revenue and profitability on a sustained basis. Any major unanticipated debt-funded capex or a stretch in the working capital cycle, materially weakening the capital structure and liquidity, could also result in ratings downgrade. Specific credit metrics that could result in ratings downgrade include total debt/EBITDA of more than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ICRA has taken a consolidated view of STIPL and its two subsidiaries. STIPL, being the leading and the flagship company among the three, is unlikely to draw any significant support from its subsidiaries. However, ICRA considers the likelihood of STIPL supporting its subsidiaries.
Consolidation/Standalone	Consolidation: For arriving at the ratings, ICRA has consolidated the financials of STIPL and its two subsidiaries (as mentioned in Annexure-2). Considering the strong operational, managerial and financial linkages including fungibility of funds among the three companies, ICRA has taken a consolidated view on the ratings.

About the company

Sam Turbo Industry Private Limited (STIPL), is involved in designing, manufacturing, and servicing pumps for various industries in India since 1971. The company's product range includes slurry pumps, chemical pumps, process pumps, split case pumps, centrifugal pumps etc. STIPL has a wide range of pumps that are suitable to handle all kinds of liquids in various industries related to chemicals, petrochemical, paper, refineries, basic metals, fertiliser, thermal power stations, mining, etc. Apart from the pump manufacturing facility, the company has a captive steel foundry, which manufactures castings required in pumps.

The main items in a pump are steel castings of various shapes and designs. The capacity of the company's foundry is 5,400 MTPA. The company also has seven captive windmills. The pumps of the company are sold under the brand, Sam Pumps.

Subsidiaries:

Samsen Papers Private Limited: The company does not have any major operations at present. However, it is undertaking a manufacturing facility for low-GSM packaging paper. The commercial production of the same is scheduled to start by May/June 2024.

Samsen Special Castings Private Limited: The company has a fettling shop located in the premises of STIPL and operates as a captive unit for its foundry unit.

Key financial indicators (audited)

Sam Turbo Industry Private Limited	Standalone		Consolidated	
	FY2022	FY2023	FY2022	FY2023
Operating income	136.9	161.3	136.9	161.3
PAT	7.8	7.6	7.6	7.5
OPBDITA/OI	5.0%	6.5%	4.8%	6.4%
PAT/OI	5.7%	4.7%	5.5%	4.6%
Total outside liabilities/Tangible net worth (times)	1.0	0.9	0.9	0.9
Total Debt/OPBDITA (times)	1.3	0.5	1.4	0.8
Interest coverage (times)	7.3	13.1	6.9	12.8

PAT: Profit after tax; OPBDITA: 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	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 05, 2024	-	Mar 29, 2023	-
1	**Fund based – Cash Credit**	Long-term	3.00	NA	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB (Stable)**	-
2	**Fund based – Term loan**	Long-term	0.90	0.90	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB (Stable)**	-
3	**Fund based – Export Packing Credit**	Short-term	4.00	NA	**[ICRA]A3+**	-	-	-
4	**Non-Fund based – Bank Guarantee**	Short-term	8.00	NA	**[ICRA]A3+**	-	**[ICRA]A3+**	-
5	**Non-Fund based – Others**	Short-term	13.00	NA	**[ICRA]A3+**	-	**[ICRA]A3+**	-
6	**Unallocated**	Short-term	1.10	NA	**[ICRA]A3+**	-	**[ICRA]A3+**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Long-term – Fund-based – Term Loan	Simple
Short-term – Fund based – Export Packing Credit	Very simple
Short-term – Non-fund-based – Bank Guarantee	Very simple
Short-term – Non-fund Based – Others	Very simple
Short-term – 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	Fund based – Cash Credit	NA	9.25%	NA	3.00	[ICRA]BBB (Stable)
NA	Fund based – Term loan	FY2022	9.45%	FY2025	0.90	[ICRA]BBB (Stable)
NA	Fund based – Export Packing Credit	NA	NA	NA	4.00	[ICRA]A3+
NA	Non-Fund based – Bank Guarantee	NA	NA	NA	8.00	[ICRA]A3+
NA	Non-Fund based – Others	NA	NA	NA	13.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	1.10	[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

Instrument Name	Ownership	Current Rating and Outlook
Samsen Papers Private Limited	100.00%	Full Consolidation
Samsen Special Castings Private Limited	100.00%	Full Consolidation

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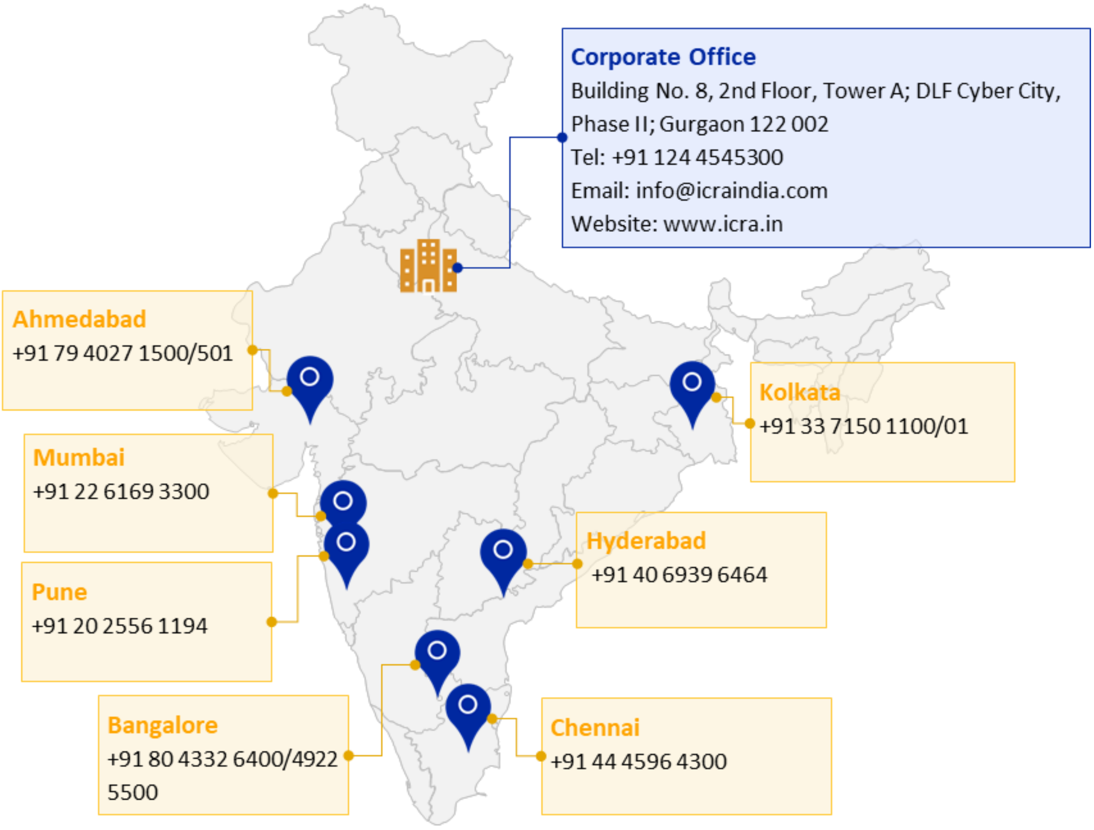

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