



SAC Engine Components Private Limited

Instruments	Amounts (Rs. Crore [*])	Rating Action
Term Loans	57.99 (revised from 66.19)	[ICRA]BBB-(Stable) reaffirmed
Long term fund based facilities	32.50	
Short term proposed facilities	8.93 (revised from 0.73)	[ICRA]A3 reaffirmed

ICRA has reaffirmed the long term rating of [ICRA]BBB- (pronounced ICRA triple B minus) outstanding on Rs.57.99 crore term loan facilities (revised from Rs.66.19 crore) and Rs.32.50 crore fund based facilities of SAC Engine Components Private Limited ("SAC" / "the Company")[†]. ICRA has also reaffirmed the short term rating of [ICRA]A3 (pronounced ICRA A three) outstanding on the Rs.8.93 crore unallocated facilities (revised from Rs.0.73 crore) of SAC. The outlook on the long term rating is stable.

The ratings reaffirmation factor in the promoters' long standing experience in the engine components industry, company's strong relationship with reputed auto OEM/ ancillaries and its presence in the value-added machining segment which supports the relatively high margins. The ratings also factor in company's dominant market share in the camshaft industry across domestic automobile sectors such as tractors, commercial vehicles, utility vehicles and off-road vehicles owing to its sole/ first supplier status with leading customers.

The ratings are however constrained by the susceptibility of revenues and profitability to cyclicalities in the automobile industry, intense competition and exchange rate movements. During 2014-15, the tractor segment accounted for bulk of company's revenue (28%) followed by commercial vehicles (CV; 90% derived from light commercial vehicles) and utility vehicles (UV) segment at 26% and 19% respectively. The balance is derived from off-road vehicles, power generation and industrial engines among others. Barring the UV segment which witnessed 11% YoY growth, the other major segments – tractors and CV industry witnessed YoY de-growth of 10% and 1% respectively during the last fiscal. Even within the UV segment, the company's key customer – Mahindra & Mahindra Limited (M&M; [ICRA]AAA (Stable)/ [ICRA]A1+) witnessed decline in market share owing to influx of new players into the segment which impacted SAC's order book position. Against this backdrop, the company's capacity utilisation levels declined leading to overall drop in sales and operating profit margins by 14.5% and 450 bps respectively during 2014-15. The same also led to moderation in debt-protection metrics with interest coverage declining from 3.2 times in 2013-14 to 2.4 times in 2014-15. Even during Q1 of the current fiscal, the company's key segments – tractors and CV industry continued to de-grow by 14% and 5% respectively owing to weak monsoon while M&M's UV sales declined by 5% (compared to corresponding period last year). Nevertheless, ongoing measures to diversify revenue profile (such as two-wheelers) and improve its share of business from existing customers would enable the company buffer the impact of slowdown (in key end-user segments) going forward.

The ratings also take into account the company's leveraged capital structure reflected in gearing of 1.9 times as on March 31st 2015 owing to recurring debt-funded capex and the significant repayment obligation to the tune of Rs.14.0 crore pa over the medium term, which could strain the liquidity position.

Furthermore, ICRA takes note of the company's ongoing debt-funded capex to the tune of Rs.15.0 crore scheduled to be completed over the next six months, aimed at enhancing camshaft production line from 1.6 lakhs per month to 1.82 lakhs per month to cater to export market demand. Successful commissioning of these new capacities and the ability to ramp up its volumes in the export market

^{*} 100 lakhs = 1 crore = 10 millions

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.



would be critical to improving the sales and profitability over the medium term. The same would also augur well for meeting aforesaid debt repayments and improving the credit risk profile of the company.

Company Profile

SAC Engine Components Private Limited ("SAC"), established in the year 1986 as a partnership firm and incorporated in 1991 as Southern Auto Castings Private Limited, manufactures raw/ machined castings targeting the automotive industry and power generation sector. SAC is a tier I/II auto component manufacturer supplying to major auto OEMs and auto ancillaries both in the domestic and global markets. The company manufactures camshafts, valve tappets (cam followers), rocker arms and balancer shafts for diesel and gasoline engines in specialized grey iron, ductile iron and hardened iron/ steel.

The Company changed its name to SAC Engine Components Private Limited in 2010-11, to differentiate itself from generic foundries and to position itself as an auto component manufacturer. SAC has three manufacturing units (one foundry and two machining) in the SIPCOT Industrial Complex (Tamil Nadu Government promoted) in Thiruvallur district near Chennai (Tamil Nadu) and has employee strength of ~1100.

Recent Results

During the year 2014-15, SAC reported net profit of Rs.1.5 crore on an operating income (OI) of Rs.140.3 crore compared to net profit and OI of Rs.7.4 crore and Rs.164.1 crore respectively in 2013-14.

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