# Steer Engineering Private Limited

| Instrument | Amount (Rs. Crore) | Rating Action October 2016 |
|---|---|---|
| Fund based – Cash Credit | 45.0 (enhanced from 35.0) | Reaffirmed at [ICRA]BBB; outlook revised from Stable to Positive |
| Fund Based – Term Loans | 36.0 (enhanced from 12.0) | Reaffirmed at [ICRA]BBB; outlook revised from Stable to Positive |
| Non Fund based | 25.0 (enhanced from 8.4) | Reaffirmed at [ICRA]A3+ |

ICRA has reaffirmed the long term rating assigned to the Rs. 45.0 crore (enhanced from Rs 35.0 crore) fund based limits and the Rs. 36.0 crore (revised from Rs 12.0 crore) term loans of Steer Engineering Private Limited (Steer / 'the company')[1] at [ICRA]BBB (pronounced as ICRA Triple B). The outlook on the long term rating has been revised from Stable to Positive. ICRA has also reaffirmed the short term rating assigned to the Rs. 25.0 crore (revised from Rs. 8.4 crore) non fund based limits of Steer at [ICRA]A3+ (pronounced as ICRA A Three Plus).

The reaffirmation of the ratings take into account the growth in operating income in FY2016 and the significant increase in sales in the highly competitive US market, amidst the global economic weakness which also impacted the equipment sales in Japan. The ratings continue to derive comfort from Steer's long track record in manufacturing of extruder elements (for almost 20 years) and extruder machines (for almost 10 years) and the experienced professional management and industry experts to spearhead the growth target. The company has supplied over 4 lakh elements and 500 extruders across 39 countries in the past and has built engineering designs of over 10,000 elements used in almost 200 different machines, which helps the company in faster turnaround of orders. Besides, the company has strong technical capabilities as evidenced by a portfolio of 33 patents across various stages with 13 already been granted and is focused towards diversification of its revenue base through widening its geographical footprint and increased exposure to new sectors such as pharmaceuticals, foods and nutraceuticals. ICRA notes that the company has demerged the pharma business into a separate entity, STEERLIFE India Private Limited (Steerlife), with an appointed date of April 1, 2016 and the funding requirement for Steerlife are expected to be taken care of separately with no further funding support from Steer.

The ratings are, however, constrained by Steer's increased working capital intensity of operations with Net Working Capital / Operating Income ratio increasing to 53% in FY2016 (on a consolidated basis), primarily on account of increased receivables and inventory holding. ICRA, however, notes that the new sanction of Bank Guarantee with Syndicate bank will provide additional liquidity in the working capital with the same being used by the foreign subsidiaries to discount its bills and remit Steer, thus significantly reducing the receivables position. The ratings also take into account the increase in working capital borrowings and term loans on account of research & investments towards the pharmaceutical division and expansion of the existing facility for the engineering division which may lead to some deterioration in the gearing level and coverage indicators in the near term. The ratings are further constrained by the inherent cyclicality in the capital goods sector, and intensely competitive nature of the industry marked by the presence of well-established multinational players and Steer's overall modest scale of operations, which provides it with limited flexibility to weather any sudden decline in demand.

The positive outlook reflects the favourable prospects for the company, with a comfortable order book position providing healthy revenue visibility going forward. ICRA expects that the sustained demand will translate into an increase in turnover and profitability over the medium term. The ratings may be upgraded, going forward, if the company is able to achieve improvement in the working capital intensity with reduction in receivables and/or inventory position, sustain its revenue growth and improve its profitability on the expected lines. Conversely, the outlook may be revised to stable if the financial profile weakens with lower profitability and accruals or if its working capital requirements are larger than expected. Cost overruns in its existing capital expenditure (capex) plans and any further significant capex or funding support to group companies may also adversely impact the ratings.

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

**Company Profile**

Steer, established in 1993, is engaged in the designing and manufacturing of co-rotating Twin Screw Extruders, Extruder Processing Zone Elements and peripherals for the polymer industry. The company was promoted by first generation entrepreneur, Dr. Babu Padmanabhan, who is currently the Managing Director. As on March 31, 2016, the promoter and his family hold 81.9% stake in the company, while 13.1% is held by IL&FS. With two manufacturing units located in Bangalore and Coimbatore and a foundry in Coimbatore, Steer has a capacity to manufacture over 60,000 extruder elements and 120 extruders annually. Steer has wholly owned subsidiaries: Steer Japan Corporation (SJC), Steer America Inc. (SAI) and Steer China Global (SCG) to carry out sales and marketing activities in the respective regions. During FY2016, BR Accessories Private Limited and Crystal Cabs Private Limited, wholly owned subsidiaries of Steer have been merged with the company with an appointed date of April 1, 2015 and Steer has demerged the pharma business which has been transferred to STEERLIFE India Private Limited (wholly owned subsidiary of Steer), with an appointed date of April 1, 2016.

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