

October 09, 2017

SAC Engine Components Private Limited

Summary of rated instruments

Instruments*	Rated amount (Rs. crore ¹)	Rating action
Long-term: Term Loan	50.00 (revised from 41.21)	[ICRA] BBB+(Stable) upgraded from [ICRA]BBB(Stable)
Long-term: Fund-based facilities	37.50 (revised from 32.50)	
Short-term: Unallocated facilities	11.92 (revised from 25.71)	[ICRA]A2 upgraded from [ICRA]A3+

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating outstanding on the Rs. 50.00 crore (revised from Rs.41.21 crore) term loan facilities, Rs. 37.50 crore (revised from Rs. 32.50 crore) long term fund-based facilities of SAC Engine Components Private Limited ('SAC') to [ICRA]BBB+(pronounced ICRA triple B plus) from [ICRA]BBB (pronounced ICRA triple B)². The outlook on the long-term rating is stable. ICRA has also upgraded the short-term rating outstanding on the Rs. 11.92 crore (revised from 25.71 crore) proposed facilities of SAC to [ICRA]A2 (pronounced A two) from [ICRA]A3+ (pronounced ICRA A three plus).

Rationale

The rating upgrade draws comfort from the sustained improvement in SAC's operational and financial profile during FY2017 and 5m FY2018. The ratings continue to derive strength from promoter's vast industry experience, SAC's established track record of manufacturing camshafts, and long-standing relationship with reputed client base. SAC's business risk profile is strong with its established market position in safety critical camshaft market, supplying components to automobile OEMs and its 100% share of business with few OEMs in major segments. Steady order flows from most of its product segments, both in domestic and overseas markets have supported healthy revenue growth in FY2017 and 5mFY2018, while the margins and operational cash flows remain strong with higher skew towards fully machined camshafts. Revenue potential from tractor segment, which contribute 35.7% of revenues, remains healthy aided by favourable monsoons and increased focus on rural development. The ratings also consider the moderate, albeit improving, capitalisation indicators, given the regular debt-funded capital expenditure (capex) undertaken towards capacity expansion. SAC's ability to increase its scale of operations at the export segment, while maintaining the operating cycle is to be seen.

The ratings also consider the susceptibility of revenues to the cyclical trends in automobile industry and vulnerability of earnings to fluctuations in input prices and foreign exchange rates in the absence of any hedging policies. SAC's ability to improve its capital structure and operating cycle while maintaining its margins and debt coverage ratios will be key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Long association with leading OEMs and diversified geographical presence** – With a presence of over 3 decades, SAC has developed strong relationships with large OEMs, both within domestic and international markets. Key customers include Mahindra and Mahindra Limited (M&M, rated AAA (Stable) /A1+ by ICRA), JCB India Limited, Simpson and Co. etc to name a few. SAC also exports camshafts to major global OEM majors covering U.K, China, Spain, Mexico, France and United States. Exports, accounting for 28% of sales, witnessed a growth of 64% during FY2017.
- **Promoter's long standing industry experience in the industry** - Incorporated in 1991, SAC has a long track record of manufacturing critical engine components for automobile industry. The promoter Mr. P Subramanian has close to four decades of experience in the field of engineering. He is well supported by a qualified and experienced management team.
- **Strong order book position** - Order flows from tractor, commercial vehicle (CV) and utility vehicles (UV) segments, which accounted for ~77% of revenues, have been strong in last two years. Volumes from Off the road (OTR) vehicles and power generators segments have also been healthy leading to an overall revenue growth of 20% and 15.9% during FY2017 and 5m FY2018. Against the revenues of Rs. 170 crore in FY2017, SAC is estimated to clock Rs. 195.3 crore revenues based on the confirmed order book position.
- **Healthy recovery in domestic demand of tractors-** The tractor industry witnessed a healthy recovery in domestic demand since the beginning of FY2017 with farm sentiments improving subsequent to healthy rainfall precipitation and improved farm cash flows. The government remains committed towards rural development and agri-mechanization, and has enhanced allocations in its budgetary plans to promote farm incomes. Healthy revenue potential is seen as tractor is the largest revenue driver for SAC (35.7% of total revenues during FY2017) having 75% share of business with M&M.

Credit weaknesses

- **Vulnerability of revenues and profitability to cyclical trends in automobile industry** - Camshaft is a critical component that is necessary for the functioning of an engine and hence any cyclical in automobile demand has an impact on the auto ancillary demand. The demand scenario is impacted by general economic or industry conditions, including seasonal trends in the automobile manufacturing sector, volatile fuel prices, rising employee expenses and challenges in maintaining amicable labour relations as well as evolving regulatory requirements, government initiatives, trade agreements etc.
- **Moderate capital structure and high working capital intensity** – With regular investments (debt-funded) towards capacity additions in the past, SAC's capital structure is moderately high at 1.4x as on March 31, 2017 (against 1.6x as on March 31, 2016). With a planned debt funded capex of Rs. 30.0 crore, the gearing is expected to remain at current levels. The company's liquidity position is also stretched with low current ratio (0.9x as of March 2017) and long operating cycle with stretched receivables. SAC's ability to improve its capital structure and operating cycle while maintaining its margins and debt coverage ratios will be key rating sensitivities.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

**About the company:**

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) and rocker arms 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 FY2011, 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 (government promoted) in Thiruvallur district near Chennai, Tamil Nadu and has employee strength of ~1,300 without any unions.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Key financial indicators

	FY2016(Audited)	FY2017(Audited)
Operating income (Rs. crore)	142.0	170.3
PAT (Rs. crore)	5.3	7.4
OPBDITA/ OI (%)	21%	19.9%
RoCE (%)	14.9%	16.7%
Total Debt/ TNW (times)	1.6	1.4
Total Debt/ OPBDITA (times)	2.4	2.1
Interest coverage (times)	3.1	3.8
NWC/ OI (%)	25.6%	24%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income; Source: Financial statements of SAC and ICRA research

Rating history for last three years:
Table

S. No.	Instrument	Current Rating (2017)			Chronology of Rating History for the past three years		
		Type	Amount rated (Rs. crore)	Oct' 2017	Sep' 2016	Sep' 2015	Sep'2014
1	Term Loan	Long term	50.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund based facilities	Long term	37.50	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Unallocated facilities	Short term	11.92	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A3

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-
Instrument Details**

Instrument	Date of issuance	Coupon rate	Maturity Date	Amount rated (Rs. crore)	Current rating and outlook
Term Loan	-	12.70%	FY2021	50.00	[ICRA] BBB+ (Stable)
Cash Credit	-	-	-	37.50	[ICRA] BBB+ (Stable)
Proposed facilities	-	-	-	11.92	[ICRA]A2

Source: SAC

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