

SOGEFI - MNR Engine Systems India Private Limited

December 08, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (CC)	10.00	-	[ICRA]A; reaffirmed; outlook revised from 'Stable' to 'Positive'
Long Term – Interchangeable (CC)^	(15.00)	(15.00)	
Long Term – Unallocated	-	10.00	
Short Term – Fund Based	30.00	30.00	[ICRA]A1; reaffirmed
Short Term – Interchangeable (LC)^	(5.00)	(5.00)	[ICRA]A1; reaffirmed
Total	40.00	40.00	

[^]The interchangeable limits are sub-limits of the short-term fund-based limits

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 15.00-crore long-term interchangeable limits and the Rs. 10.00-crore long-term unallocated limits of SOGEFI - MNR Engine Systems India Private Limited (SMNR) ¹. ICRA has also reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 30.00-crore short-term fund-based and Rs. 5.00-crore short-term interchangeable limits of SMNR. The outlook on the long-term rating has been revised from 'Stable' to 'Positive'.

Rationale

The reaffirmation of the ratings takes into account the long experience of the promoters in the automotive-filter industry and the strong parentage for being a part of the Sogefi Group, a leading player in the global auto-ancillary industry. The rating continues to derive support from the diversification of revenues across the two-wheeler (2W) and four-wheeler (4W) segments and across the filtration and air & cooling (A&C) products. SMNR enjoys long relationship with leading Original Equipment Manufacturers (OEMs) and commands significant market in the domestic two-wheeler filter market. The ratings are also supported by the strong financial profile of the company, marked by consistent revenue growth, healthy capital structure and coverage indicators along with comfortable liquidity position.

The ratings are, however, constrained by the cyclical nature in the automotive component industry owing to variations in demand from the end users. However, replacement demand from the OES market mitigates demand-volatility risk to a large extent. The ratings are also constrained by the exposure of margins to the fluctuations in raw-material prices and foreign-currency fluctuations as a significant portion of the raw materials are imported. The ratings also take into account the competitive pressure from other auto-component manufacturers which limit the pricing flexibility to an extent. ICRA also notes that the company proposes to consolidate its manufacturing facilities in Bangalore in the coming financial year. Any disruption of operations due to the shifting activities and any consequent impact on profitability would be a key rating sensitivity, going forward.

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

Outlook: Positive

The positive outlook reflects the favourable demand prospects for the company, driven by increase in order flow from existing customers, supported by replacement demand for filters, new customer additions under the filtration segment, as well as addition of new products such as carbon canisters to its product portfolio. The rating may be revised upward if there is a sustained growth in revenues while maintaining the profitability and working-capital intensity. However, the outlook may be revised to 'Stable' if the market position or profitability deteriorates from the current levels, or if there is any temporary disruption in its operations following its plan to shift its operations to a new facility.

Key rating drivers

Credit strengths

Long experience of the promoters in the automotive filter industry and strong parentage for being a part of the Sogefi Group: Started as a partnership firm in July, 1971, the company manufactures filters for more than four decades. In 2008, the company entered into a joint venture with the Sogefi Group which is specialised in manufacturing of filtration systems, cooling systems and flexible suspension components and is a leading global supplier of automotive parts.

Revenues diversified across two-wheeler and four-wheeler segments: The company derives about 70% of its revenues from the filtration segment under which it manufactures air, oil and diesel filters for the automotive industry, as well as industrial filters. The remaining 30% is derived from the air and cooling (A&C) segment under which it manufactures plastic-molded manifolds, thermostat housing and ducts, coolant pump modules, air-induction systems, etc. While the A&C segment caters primarily to the four-wheeler industry, about 70% of the revenues from the filtration segment are derived from the two-wheeler industry. Overall, the revenues are well diversified with the 2W industry contributing to about 55% of the total revenues.

Established relationship with reputed client base and significant market share enjoyed by the company in the domestic two-wheeler filter market: The customers of the company include leading OEMs in the 2W and 4W segments such as Bajaj Auto Ltd, Hero Moto Corp Ltd., TVS Motors Ltd., Mahindra and Mahindra Ltd. and Maruti Suzuki India Ltd., among others. The company has been associated with most of these customers for more than two decades and the orders from these customers have been consistently growing. The company enjoys about 60% market share in the 2W filtration segment, giving it a competitive edge. Also, the revenues of the company remain diversified with no single customer contributing to more than 20% of its revenues, mitigating order volatility risks to a large extent.

Financial profile marked by consistent revenue growth, healthy operating margins and strong capital structure and coverage indicators: The operating income of the company has grown consistently with a CAGR of ~30% over the last two fiscals. The growth is driven primarily by increased orders from existing customers, supported by replacement demand for its filters. The company has reported healthy operating margins in the range of 15.0-16.0% in the last three fiscals. The debt levels of the company have declined over the last two-three years, with the company reducing its working-capital borrowings and repaying the External Commercial Borrowings (ECB) from its Group company, supported by healthy cash flows. The reduction in debts coupled with healthy accretion to reserves has resulted in strong capital structure and coverage indicators. The gearing of the company stood at 0.2 times as on March 31, 2017 and the interest coverage stood at 18.0 times for FY2017.

Comfortable liquidity position and healthy cash flows: The company reported net cash accruals of Rs. 42.7 crore in FY2017. The working capital utilisations have been very low with an average utilisation of less than 10% between December, 2016 and November, 2017. With a cash balance of Rs. 17.0 crore as on March 31, 2017 and significant unutilised working-capital limits, the liquidity profile of the company remains strong.

Credit weaknesses

Exposure to cyclicalities in the automotive component industry: The company is exposed to demand volatilities, common to automotive component industry, owing to cyclicalities in the end-user industry. While revenues are diversified across 2W and 4W segments, it has limited presence in commercial vehicles and three wheelers segments and non-automotive segments such as locomotive or construction equipment. However, the presence of the company in the OES segment, catering to the replacement demand, mitigates the demand-volatility risk to an extent.

Exposure to fluctuations in raw-material prices and foreign exchange rates: As raw material cost accounts about 87% of the company's operating costs, the margins are susceptible to volatilities in material prices. Since a significant portion of the materials are imported, the margins of the company are also exposed to foreign exchange volatilities. However, the exports of the company provide natural hedge to an extent. Also, the long relationship with the customers helps the company have some pricing flexibility to pass on any steep fluctuations in material price.

Competition from other filter and manifold manufacturers: The company faces competition from other established players in the filtration and A&C segment. While the company enjoys a strong market share in the 2W filter segment, the market share in the 4W segment is lower. However, the company has been increasing its presence in the 4W segment for the filtration division in recent years. Also, continuous investment in research and development activities enhances the technological capabilities and enables product differentiation to some extent.

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

Links to applicable criteria:

[Rating Methodology for Auto Component Manufacturers](#)

About the company:

A part of Italy-based Sogefi Group, SOGEFI-MNR Engine Systems India Private Limited manufactures air, oil and fuel filters for automobile engines, industrial filters, air intake manifolds and engine-cooling systems. SMNR was started as a partnership firm in July, 1971, under the name M.N. Ramarao & Company. In November, 2008, a joint venture was formed with Filtrauto Societe Anonyme, a subsidiary of Sogefi SpA, and the name of the company was subsequently changed to SOGEFI MNR Filtration India Private Limited in April, 2009. In April, 2014, the company merged with Systemes Moteurs India Pvt. Ltd. to form SOGEFI-MNR Engine Systems India Private Limited. Sogefi Group holds a 70% stake in the company. The company has two manufacturing units in Bangalore and one each in Pune and Gurgaon. SMNR also has a research and development centre as a part of the Bangalore manufacturing unit and derives income by offering development services to its group companies.

Group Profile

Sogefi Group is a leading global supplier of original parts for the automotive industry. Founded in 1980, Sogefi is now present in 21 countries with 42 production plants. The group-holding company Sogefi SpA has 36 consolidated companies, structured in three business units: the Air & Cooling Business Unit, Filtration Business Unit and Suspensions Business Unit. During 2011, Sogefi had bought the France-based car components Group Systèmes Moteurs, a leading global manufacturer of air-management systems and engine cooling system. The consolidated revenues of Sogefi Group for CY2016 amounted to € 1.57 billion.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	292.3	356.0
PAT (Rs. crore)	27.4	27.6
OPBDIT/ OI (%)	15.4%	16.0%
RoCE (%)	29.7%	31.8%
Total Debt/ TNW (times)	0.4	0.2
Total Debt/ OPBDIT (times)	0.9	0.4
Interest coverage (times)	9.3	18.0
NWC/ OI (%)	15.7%	15.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Dec 2017	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 Sep 2015	Date & Rating in FY2015 -
1 Fund Based (CC)	Long Term	-		-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-
2 Interchangeable (CC)^	Long Term	(15.00)		[ICRA]A (Positive)	[ICRA]A (Stable)	-	-
3 Unallocated	Long Term	10.00		[ICRA]A (Positive)	-	-	-
4 Fund Based	Short Term	30.00		[ICRA]A1	[ICRA]A1	-	-
5 Interchangeable (LC)^	Short Term	(5.00)		[ICRA]A1	[ICRA]A1	-	-

^The interchangeable limits are sub-limits of the short-term fund based limits

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-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Interchangeable (CC)	NA	NA	NA	(15.00)	[ICRA]A (Positive)
NA	Unallocated	NA	NA	NA	10.00	[ICRA]A (Positive)
NA	Fund Based	NA	NA	NA	30.00	[ICRA]A1
NA	Interchangeable (LC)	NA	NA	NA	(5.00)	[ICRA]A1

Source: SOGEFI-MNR Engine Systems India Private Limited

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