

Surin Automotive Private Limited

June 06, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund-based (Term Loans)	55.0	[ICRA]A (Stable); Assigned
Long term: Fund-based (Cash Credit)	98.0	[ICRA]A (Stable); Assigned
Long term: Unallocated	2.0	[ICRA]A (Stable); Assigned
Short term: Non-fund Based Facilities	45.0	[ICRA]A1; Assigned
Total	200.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 55.0 crore term loan facilities, Rs. 98.0 crore fund-based facilities and Rs. 2.0 crore proposed unallocated facilities of Surin Automotive Private Limited ('SAPL'). The outlook on long-term rating is Stable. ICRA has also assigned a short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs.45.0 crore non-fund based bank facilities of the company.

Rationale

The assigned ratings favourably factor in the vast experience of promoters and SAPL's established presence in body fabrication of products used in segments like passenger vehicles (PV), commercial Vehicles (CV), tractors, construction equipments (CE) and seating systems. The ratings also consider SAPL's long standing relationship with its reputed client profile (like Ashok Leyland Limited (ALL), Eicher Tractors, TAFE, JCB, Hyundai Construction, Kobalco, Komatsu etc) thus providing healthy revenue visibility, and strong financial profile characterised by healthy RoCE and debt protection metrics as of FY2018. Positive near-term demand outlook for the end-user industries also underpins the ratings as SAPL will be a key beneficiary supported by its strong market share with key OEMs in the respective plants.

The ratings also consider the exposure of SAPL's earnings to the cyclicity in most of the end-user industries, risk of high customer concentration (with top customer accounting for over half of FY2018 revenues), and negative free cash flows due to steady capital expenditure undertaken by the company.

Outlook: Stable

ICRA believes SAPL will benefit from the favorable outlook for automotive, CE and tractor industries. The outlook may be revised to Positive if SAPL witnesses sustained growth in revenue and profitability, thus strengthening the financial risk profile. The outlook may be revised to Negative with sharp decline in cash accruals or weakening of debt indicators.

Key rating drivers

Credit strengths

Vast experience of the promoter and strong management team: SAPL's promoter, Mr. Surinder Choudhari is the Chairman of the company and has over four decade experience in the automotive industry. SAPL has a strong board and its operations are managed by Mr. Aman Choudhari and well supported by a qualified and experienced management team.

Strong operational profile: SAPL's operational profile is strong with established presence in body fabrication of products used in segments like PV, CV (mostly M&HCVs), tractors, CE (mostly excavators) and seat and seating systems. Sales to CV segment represent over 50% of FY2018 sales followed by CE (19%), PV (18%) and farm (12%). Its product portfolio is well diversified and includes (i) front end structures (FES), COWLS, load bodies, tipper, cabins, flitches etc (for CV segment), (ii) Counter weights, fuel tanks, bucket etc (for CE segment), (iii) Car parts like dust cover, height base plate, hood latch, S-belt, etc (for PV segment), (iv) Mud guard, bumper, fenders, axle and wheel weights (for farm segment), and (v) Seats. Around 30% of SAPL's revenues is derived from sale of FES and COWLS in FY2018 followed by car parts (14%), while other key products contribute to less than 10% of revenues.

Reputed client profile with established relationship: In the CV segment, SAPL primarily caters to the requirements of ALL and has also added two major players to its clientele in FY2019. In CE segment, it supplies Counter Weights, tanks and buckets to OEs like JCB, Hyundai Construction, Kobelco, Komatsu, Volvo, SANY etc. In the PV segment, SAPL supplies car assembly parts to various Tier-1 suppliers of Hyundai, Ford and Renault Nissan and in the farm segment, SAPL supplies axles, bumpers, fenders, mud guards, wheel weight etc to OEMs like TAFE, Eicher Tractors etc. Its established relationship with customers supports repeat orders and provides strong visibility to revenues and earnings.

Healthy financial profile with strong ROCE and debt protection metrics: SAPL's financial profile is healthy characterised by a strong revenue growth (5-year CAGR of 14% during FY2013-18), favourable RoCE (24% in FY2018) and satisfactory debt protection metrics (with Total debt to operating profits and interest coverage at 1.4x and to 10.2x respectively for FY2018 and gearing at 0.6x as of March 2018).

Favourable demand outlook for end user industries: The near term demand outlook for CV / CE segments is favourable with continued thrust on infrastructure spending by the Government and buoyant replacement demand. While normal monsoon expectations shall support crop output and consequently tractor demand, launch of new models is expected to aid PV growth, thus supporting the business prospects of SAPL favourably going forward.

Credit challenges

Vulnerability to cyclicity in end user industries: While its presence across varied industries insulates earnings against any exogenous shocks or demand slowdown in a specific industry, SAPL's earnings remains exposed to the inherent cyclicity in end-user industries. CV and CE segments, accounting for ~70% of SAPL's revenues, exhibits significant cyclicity as it is linked closely to economic growth, investments in infrastructure etc. The domestic tractor industry also exhibits cyclicity with the industry's prospects closely linked to the performance of farm sector that is correlated with monsoon performances.

Customer concentration risks: With the top customer (ALL) accounting for over half of revenues in FY2018, there is a risk of customer concentration. Nevertheless, the share has been declining steadily with addition of new clients in recent years. Going forward, SAPL's ability to achieve balanced clientele will be critical in strengthening its business profile.

Negative free cash flows: SAPL's fund flows from operations have been strong and growing at healthy rate (5-year CAGR of 18% during FY2013-18) aided by strong revenue growth amidst flattish margins and better operating cycle. However the free cash flows (FCF) have been negative in last two years as the company incurred steady capex towards capacity enhancements across its plants. With planned capex over next two years, the FCF is expected to be lower. While SAPL's RoCE is strong, the operating margins have been largely flat (at ~8-9% in last few years).

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

About the company:

Surin Automotive Private Limited is a mid-sized component supplier involved in body fabrication of products used in segments like passenger vehicles (PV), Commercial Vehicles (CV), tractors, Construction Equipment (CE) and seating systems. SAPL has 12 plants spread across eight cities catering to the requirements of major OEMs.

For FY2018 (provisional), SAPL's net profit stood at Rs. 30.3 crore on an operating income of Rs. 712.0 crore, as compared to a net profit of Rs. 26.4 crore on an operating income of Rs. 648.7 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018 (provisional)
Operating Income (Rs. crore)	648.7	712.0
PAT (Rs. crore)	26.4	30.3
OPBDIT/OI (%)	8.2%	8.6%
RoCE (%)	27.1%	23.9%
Total Debt/TNW (times)	0.6	0.6
Total Debt/OPBDIT (times)	1.3	1.4
Interest coverage (times)	11.0	10.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
Term Loans	Long Term	55.0	39.4	[ICRA]A (Stable)	-	-	-
Cash Credit	Long Term	98.0	NA	[ICRA]A (Stable)	-	-	-
Unallocated	Long Term	2.0	NA	[ICRA]A (Stable)	-	-	-
Non Fund Based	Short Term	45.0	NA	[ICRA]A1	-	-	-
Total		200.0			-	-	-

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	Term Loan 1	Aug 2013	NA	Aug - 2018	8.82	[ICRA]A (Stable)
NA	Term Loan 2	FY2016	NA	Sep - 2020	16.00	[ICRA]A (Stable)
NA	Term Loan 3	Dec 2016	NA	Dec - 2021	10.00	[ICRA]A (Stable)
NA	Term Loan 4	Oct 2017	NA	Nov - 2021	9.50	[ICRA]A (Stable)
NA	Term Loan 5	Jan 2018	NA	Jan - 2023	10.00	[ICRA]A (Stable)
NA	Proposed Term Loan	NA	NA	NA	0.68	[ICRA]A (Stable)
NA	Cash Credit	NA	NA	NA	98.00	[ICRA]A (Stable)
NA	Non-fund based limits	NA	NA	NA	45.00	[ICRA]A1
NA	Unallocated				2.00	[ICRA]A (Stable)

Source: SAPL

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