

July 05, 2019

Indo Schottle Auto Parts Private Limited: Ratings reaffirmed

Summary of rated action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term Loan	Rs. 32.00 crore	Rs. 32.00 crore	[ICRA]A(Positive); reaffirmed
Fund-based/Non-fund Based Facilities	Rs. 76.00 crore	Rs. 76.00 crore	[ICRA]A(Positive)/[ICRA]A1; reaffirmed
Total	Rs. 108.00 crore	Rs. 108.00 crore	

*Instrument details are provided in [Annexure-1](#)

Rationale

The ratings reaffirmation reflects Indo Schottle Auto Parts Private Limited's (ISPL's) healthy operating profitability on the back of its high-precision components manufacturing capabilities, strong position in the domestic valve collets and rocker arm screw market, diversified presence in several end-user industries, and healthy order book position. Its capital structure and coverage indicators remained comfortable, with gearing of 0.3x and Total Debt/OPBDIT of 0.9x in FY2019. The same are likely to be strengthened further over the medium term in the absence of any major debt-funded capex or acquisition plans. ISPL's liquidity profile also remains strong supported by unused bank facilities of over Rs. 45 crore as on March 31, 2019. ICRA also notes the technological and financial flexibility provided by the parent, the SFS Group, as well as ISPL's professional and experienced management.

The ratings are, however, constrained by ISPL's modest scale of operations, moderate client concentration risk with its largest client constituting over 20% of sales, the capital-intensive nature of business with low asset turnover, and relatively higher working capital intensity. Nevertheless, despite an elongated working capital cycle, ISPL's reliance on external borrowing to finance its working capital requirement remains modest. While ISPL's operating margins were robust, amid capital intensive operations and low asset turnover, its return indicators (RoCE) were suppressed. With expected improvement in asset turnover, the return indicators are likely to improve over the medium term.

Going forward, an improvement in capacity utilisation, focus towards new client acquisition and business diversification, and growth in its core (auto components) business segment and off-highway business performance will be the key rating sensitivities. Incrementally, ISPL is expected to invest Rs. 25-30 crore annually towards capacity expansion and debottlenecking operations, which will be primarily funded by internal accruals. ICRA believes that ISPL's credit profile will strengthen over the medium term supported by strong cash accruals from its existing business, improved traction in automotive business, and increased share of off-highway business in the overall revenues, leading to business diversification and reduction in segmental and client concentration risks.

Outlook: Positive

The retention of a Positive outlook reflects ICRA's expectation that ISPL's credit profile will improve further over the medium to long term, supported by an improved product mix and better utilisation of WEMA machinery leading to increased asset turnover, increased share of off-highway business and relatively higher share of exports. The outlook may be revised to Stable in case ISPL fails to maintain its revenue growth momentum and profitability level, or if sizeable debt-funded capex or investments weaken its credit profile.

Key rating drivers

Credit strengths

Comfortable financial position - The company primarily manufactures high-precision machined components for engines, turbo chargers, fuel system and hydraulics for the automotive industry. While the operating (OPBDIT) margin moderated over the last few years due to wage revision of its employees, it remained at a comfortable 23.9% in FY2019. Moreover, because of its conservative capital structure and healthy accruals, the overall coverage indicators were comfortable with TD/OPBDIT of 0.9x and interest cover of 25.0x. The liquidity position is also comfortable, with undrawn bank lines of over Rs. 45 crore as on March 31, 2019.

Diversified product mix; healthy wallet-share with reputed clients - For the domestic market, the company manufactures valve collets and rocker arm screws for almost all engines manufactured. ISPL enjoys a healthy wallet share in the niche segment of supplying precision components, though the addressable market size is small. Also, it supplies to a reputed clientele having strong credit profile, resulting in a low counterparty risk. The company is gradually establishing its position as a leading precision component supplier in India.

Credit challenges

Modest scale of operations - ISPL's scale of operations remains modest compared to other [ICRA]A-rated entities in the auto component sector. Given the capital intensive nature of its business, the company's return indicators (RoCE) are impacted by low asset turnover and working capital intensive operations, even though the operating margins are healthy.

Moderate client concentration risk - ISPL mainly supplies to the automotive segment, which exposes it to the inherent cyclicity in the segment. In addition, its largest client accounts for over 20% of the turnover, exposing it to high single client concentration risk. Despite the management's effort in diversifying the clientele, the overall dependence on its largest customer is expected to remain high over the medium term.

Capital intensive business - The capital intensive nature of its business, with substantial amount of funds blocked in working capital and capacity expansion, takes time to stabilise. Nevertheless, the company primarily finances its working capital requirement through internal accruals.

Liquidity position

The company's liquidity position is comfortable with cash and liquid investments to the tune of Rs. 7.1 crore as on March 31, 2019. Average working capital utilisation over the last 12 months remained over 26%. Its unutilised bank lines (to the tune of Rs. 50 crore on an average in the last 12 months) will be helpful in providing financial flexibility in case of contingencies.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Indo Schottle Auto Parts Private Limited is a subsidiary of the Switzerland-based SFS Group AG, which develops and manufactures mechanical fastening systems and precision-formed components. ISPL was incorporated in 1985 by first generation entrepreneurs, Mr. Vijay. B. Pusalkar and Mr. Wolfgang Schottle (a German national). In April 2012, the SFS Group acquired a 45.0% stake in the company, and as of March 2019, it held 94.7% stake in the firm.

ISPL's customer base includes almost all the major OEMs in the Indian automotive sector, including Maruti Suzuki India Limited, Tata Motors Limited, Eicher Motors Limited, Hero Motocorp Limited, Bajaj Auto Limited, Mahindra & Mahindra Limited, TVS Motors Limited, and others. Its existing international customers include Cummins Turbo Technologies Limited (UK and USA), Cummins Inc. (USA), Honeywell Turbo Technologies (part of Honeywell Inc.), Bosch Rexroth Corporation and Borg Warner Inc., Danfoss USA etc. Export revenue constitutes a major share of its overall revenues, wherein the company provides precision components for fuel injection pumps and turbochargers to reputed auto component suppliers in the engine and transmission segment.

Key financial indicators

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	242.7	280.9
PAT (Rs. crore)	27.4	32.0
OPBDIT/OI (%)	26.4%	23.9%
RoCE (%)	17.2%	16.4%
Total Debt/TNW (times)	0.4	0.3
Total Debt/OPBDIT (times)	1.1	0.9
Interest Coverage (times)	26.0	25.0

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding*	Date & Rating in FY2020 July 2019	Date & Rating in FY2019 Oct 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2016 Feb 2016	
1 Long-term Loan	Long-term	Rs. 32.00 crore	Rs. 34.10 crore	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2 Fund-based/ Non-fund Based Facilities	Long-term/ Short-term	Rs. 76.00 crore	Rs. 30.50 crore	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	

*Amount outstanding as on March 31, 2019

Source: The company

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	Current Rating and Outlook
NA	Long-term Loan 1	05 th May, 2015	6M Euribor +180bps	FY2020	Rs. 24.00 crore	[ICRA]A(Positive)
NA	Long-term Loan 2	01 st August, 2015	6M Libor +180bps	FY2021	Rs. 8.00 crore	[ICRA]A(Positive)
NA	Fund-based/Non-fund Based Facilities	NA	NA	NA	Rs. 76.00 crore	[ICRA]A(Positive)/ [ICRA]A1 <i>Source: The company</i>

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