

August 07, 2019

## Autotech-Sirmax India Pvt Ltd: Long-term rating of [ICRA]BBB (Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	17.00	[ICRA]BBB (Stable); Assigned

*\*Instrument details are provided in Annexure-1*

### Rationale

The rating assigned takes into account the extensive experience of the promoters of Autotech-Sirmax India Pvt Ltd. (ASIPL or 'the company') in the engineering thermoplastic compound industry and its established relationships with OEM authorised moulding players, resulting in repeat orders over the years. The rating also draws comfort from the company's healthy financial risk profile characterised by steady growth in operating income driven by increase in volume sales, satisfactory profitability metrics and healthy return indicators in the last three fiscals. ICRA notes that ASIPL has outlined a sizable debt-funded, phased capital expenditure (capex) for the next three years, which is expected to enhance its manufacturing capacity. However, the company's ability to achieve optimal capacity utilisation levels in the new unit and generate commensurate returns, coupled with favourable funding, remains critical from the credit perspective. The rating also takes into consideration the operational synergies derived from ASIPL's strong association with Sirmax SPA, a well-established, European thermoplastic compounding player with dominance in the home appliances and electrical segment, which will enable ASIPL an access to OEMs in the white goods segment. This, along with in-house development of Long Glass Fiber Thermoplastics (LFT) and several other products, will provide ASIPL an opportunity to diversify its product profile and ramp up its scale of operations in the medium term.

The rating, however, is constrained by the company's high sectoral concentration risk, as its products are largely used in the domestic automobile sector, which is cyclical in nature. Moreover, the sector is also witnessing growth challenges at present. Any persistent weakness that impacts the volumes and growth projects of ASIPL will be a key monitorable. The rating is also constrained by the vulnerability of profitability to fluctuations in raw material prices, which are linked to crude prices. Nevertheless, the formula-based pricing contract with customers mitigates the price risk to a large extent. The rating also notes the stiff competition from domestic and international players, which restricts the company's pricing flexibility. Also, the working capital intensity in the business remains high, arising from the relatively long credit period extended to its customers, as reflected by NWC/OI of 27% during FY2019, though the same is largely funded by internal accruals.

### Outlook: Stable

ICRA expects ASIPL to continue to benefit from the extensive experience of its promoters in the thermoplastic compounding industry and its established relationship with customers, which enables stable operational activities. The outlook may be revised to Positive if the company commences operations for additional capacity for the new products in a timely manner, while achieving considerable growth as per expected parameters. Further, increase in profitability, better working capital management, and improvement in sectorial and geographical diversification, which will strengthen the company's financial as well as operational risk profile shall lead to revision in outlook to Positive. Consequently, the outlook may be revised to Negative if there are delays in project execution, leading to time and cost overruns, or any considerable decline in revenues and profitability, or significant deterioration in the company's capital structure, or a stretch in the working capital cycle that might weaken the liquidity and financial risk profile.

## Key rating drivers

### Credit strengths

**Extensive experience of the promoters in the thermoplastic compounding industry** - The promoters and directors of the company have an extensive experience of over three decades in manufacturing thermoplastic compounds, which has been instrumental in building a diversified product portfolio for a diverse customer base. The company is part of the Tipco Group, which has been a thermoplastic and thermoset compounds supplier for around seven decades. The experienced promoters provide stable growth visibility over the near to medium term.

**Operational synergies through JV with Sirmax SPA, coupled with in-house technical capabilities in product development**- The JV, ASIPL, came into existence in August 2017 when Sirmax SPA acquired 50% stake in Autotech Polymers India Private Limited through its India arm, Sirmax India Plastics Private Limited. Sirmax S.p.A., headquartered in Italy, is a compounder of polypropylene and engineering thermoplastics, and a leading supplier to multinationals across the globe. Autotech Polymers Private Limited enjoys a dominance in the automobile sector, while Sirmax SPA is a leader in the home appliance and electrical segment. The JV, ASIPL, will receive technical know-how for its Engineering Thermoplastic Compound (ETP) business as well as access to technical R&D formulations and technology for its future growth from Sirmax SPA. The company also benefits from the strong supplier and customer base of Sirmax SPA, who has approved Sirmax's products. Furthermore, the company has developed in-house capabilities in the pultrusion technology, which is vital for manufacturing LFT. The latter are widely preferred by OEMs as they replace metals with plastic and considerably reduce the product weight without affecting the functionality.

**Favourable financial risk profile characterised by steady growth in operating income, satisfactory profitability metrics and healthy return indicators** - The company has achieved a revenue growth of 18.83% to Rs. 138.62 crore in FY2018 and further by 13.38% to Rs. 152.59 crore during FY2019. The same has been primarily driven by growth in volume sales from the gradual increase in demand for the company's products, also leading to repeat orders from its clientele. The value addition has led to satisfactory margins to a certain extent, as represented by operating profit margin (OPM) of 10.98% in FY2018 and 10.51% in FY2019, and net profit margin (NPM) of 6.39% in FY2018 and 5.73% in FY2019. Due to satisfactory profitability, the ROCE of the company stood at 17.43% during FY2019.

**Comfortable capital structure marked by strong net worth base and healthy coverage indicators** – The net worth of the company improved to Rs. 66.39 crore as on March 31, 2018 from Rs. 22.52 crore as on March 31, 2017 backed by equity infusion of Rs. 35.24 crore in FY2018, after the JV with Sirmax India Plastic Private Limited. Further retention of profits during FY2019 has led to increase in net worth to Rs. 74.82 crore as on March 31, 2019. Against a limited dependency on external debt (total debt of Rs. 8.23 crore as on March 31, 2019), this has led to a comfortable capital structure as represented by a gearing level of 0.11 time as on March 31, 2019. Lower interest cost from limited dependency on external debt, coupled with moderate profitability, has led to strong coverage indicators as represented by OPBDITA/I&F charges of 29.81 times and debt protection ratios as represented by Total Debt/OPBDITA and NCA/TD of 0.51 time and 151.40%, respectively, as on March 31, 2019.

### Credit challenges

**Sizable capex in near term likely to increase dependence on outside borrowings as well as pressure on debt protection metrics and return indicators; ability to achieve growth as per expected parameters remains critical** - The company has planned a capex of Rs. 57.82 crore for enhancing its manufacturing capacity by ~24,900 MT to ~46,950 MT by FY2021 from 22,050 MT in FY2019. The capex is expected to be funded by term loans of Rs. 26.00 crore and the rest through internal accruals, with the term loan yet to be tied up. The company has incurred a marginal cost of Rs. 0.25 lakh on the same as on date. Given the initial state of capex, ASIPL's ability to commence additional capacity in a timely manner without any cost overrun and achieve adequate capacity utilisation and growth as per expected parameters, remain critical. Further, with the increase in dependency on external borrowings, the debt metrics are expected to moderate in the near to medium term, given the rise in interest burden as well as repayments.

**Significant exposure to automobile industry, which is undergoing slowdown at present** - The company manufactures speciality thermoplastic compounds, widely used in the automobile industry. The automobile sector drives a major chunk of the company's revenues at present and, hence, continued weakness in the sector will adversely affect the growth of the company. However, in the medium term, the sector concentration risk is expected to mitigate to an extent, via sectoral diversification into manufacturing thermoplastic compounds.

**Profits remain vulnerable to volatility in prices of key raw materials; although the same is mitigated to a large extent by the formula-based pricing arrangement with customers** – Polypropylene is one of the key raw materials for manufacturing thermoplastic compounds. The prices of the key raw materials are largely volatile owing to their linkage with crude oil prices that can affect the margins of the company. However, the price risk is largely mitigated by ASIPL entering into a formula-based sales contract with its customers.

**High working capital intensity of operations from slow realisation of payments from customers** - The credit terms with customers are usually based on negotiations, however, the company provides an average credit period of 30-75 days to its customers. Against the same, it receives an average credit of ~30-45 days from its suppliers. The company also holds a moderate inventory level of around 30-40 days for the timely delivery of products to its customers. Higher credits offered to customers due to stiff competition and moderate inventory levels have led to high working capital intensity of 27% during FY2019. However, the operational activities of the company are primarily funded through internal accruals, as indicated by an average utilisation of 20% of its sanctioned working capital bank facility during the last 16 months.

**Fragmented industry structure characterised by intense competition** - The company faces intense competition from several organised and unorganised players in the domestic as well as international markets. Stiff competition with several players limits the pricing flexibility and keeps margins under check.

## Liquidity position

The company had an outstanding term loan of Rs. 1.85 crore and vehicle loan of Rs. 0.73 crore as on March 31, 2019. The same is expected to have an annual repayment schedule of Rs. 1.03 crore during FY2020 and FY2021. However, the company is expected to avail an additional term loan of Rs. 26.00 crore in the near term to fund its ongoing capex. Considering the repayments of the same, the company is expected to have a total annual repayment of ~Rs. 7 crore in FY2022 considering 18 months of moratorium. The internal accruals generated from the business are expected to be largely utilised for the capex funding. However, the liquidity profile is expected to remain adequate, given the sizeable buffer from the unutilised working capital limits, as its average utilisation for the last 16 months stood at 18% of the sanctioned limits of Rs. 14.60 crore. Going forward, the ability of the company to timely execute the project without any cost overrun, achieve adequate capacity utilisation and revenue growth as per expected operational parameters and improve the its cash accrual position will remain critical for improving its liquidity profile.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financials

## About the company

Autotech-Sirmax India Pvt. Ltd. (erstwhile Autotech Polymers Private Limited), is a JV between Plasticom Products Private Limited (a part of Tipco Group, India) and Sirmax India Plastics Private Limited (Indian arm of Sirmax SPA, Italy). The JV, came into existence in August 2017 when Sirmax SPA acquired 50% stake in Autotech Polymers India Private Limited through its India arm, Sirmax India Plastics Private Limited. The JV supplies the complete range of thermoplastics compounds, speciality polymers and resins to the automotive, electronics, appliances, electricals and other industrial

sectors. The company's manufacturing facilities are at Valsad (Gujarat) and Palwal (Haryana), with a combined manufacturing capacity of ~22,050 MT per annum. The company is planning to expand its existing capacity to ~50,000 MT/year by adding new lines and debottlenecking its Valsad and Palwal plants.

As per the FY2019 provisional statement, the company reported a net profit of Rs. 8.77 crore on an OI of Rs. 153.13 crore compared to a net profit of Rs. 8.63 crore on an OI of Rs. 135.05 crore in FY2018.

### Key financial indicators

	<b>FY2018 Audited</b>	<b>FY2019 Provisional</b>
Operating Income (Rs. crore)	135.05	153.13
PAT (Rs. crore)	8.63	8.77
OPBDIT/ OI (%)	10.98%	10.51%
RoCE (%)	27.82%	17.43%
Total Debt/ TNW (times)	0.04	0.11
Total Debt/ OPBDIT (times)	0.18	0.51
Interest Coverage (times)	11.00	29.81
NWC/ OI (%)	24.04%	27.32%

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating in	Date & Rating in	Date & Rating in
					FY2019	FY2018	FY2017
1 Term Loan	Long Term	2.40	1.85	[ICRA]BBB (Stable)	-	-	-
2 Cash Credit	Long Term	14.60	-	[ICRA]BBB (Stable)	-	-	-

### 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](http://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
-	Term Loan	FY2018	-	FY2022	2.40	[ICRA]BBB (Stable)
-	Cash Credit	-	-	-	14.60	[ICRA]BBB (Stable)

Source: Autotech Sirmax India Pvt Ltd

## ANALYST CONTACTS

**K. Ravichandran**

+91 44 45964301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Suprio Banerjee**

+91 22 6114 3443

[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Srinivas Menon**

+91 22 6169 3354

[srinivas.menon@icraindia.com](mailto:srinivas.menon@icraindia.com)

**Nandan Shah**

+91 22 6169 3353

[nandan.shah@icraindia.com](mailto:nandan.shah@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents