January 31, 2020

Super Screws Private Limited: Rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit – Long Term	20.0	20.0	[ICRA] BBB (Stable); reaffirmed and outlook revised from Positive
Fund Based - Term Loan - Long Term	30.0	23.0	[ICRA] BBB (Stable); reaffirmed and outlook revised from Positive
Fund Based - Stand by line of credit – Short Term	2.5	2.5	[ICRA] A3+; reaffirmed
Non-fund Based – Letter of Credit - Short Term	11.5	11.5	[ICRA] A3+; reaffirmed
Total	**64.0**	**57.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation takes into account the significant increase in Super Screws Private Limited's (SSPL) operating income (OI), duly backed by robust demand from the company's top two principals – Honda Motorcycle And Scooter (I) Pvt. Ltd. (Honda) and Hero Moto Corp Ltd. (Hero) – in FY2019. This was coupled with healthy improvement in cash accruals as well as a decline in TOL/TNW levels on the back of efficient working capital management. The revision of outlook reflects the fact that the company is expected to report a decline in OI in the current year on account of challenges being faced by the auto industry. However, ICRA notes that SSPL was not as adversely impacted by the slowdown as its peers. The rating further draws comfort from the healthy profitability margins supported by a high mix of specialised fasteners, moderate working capital intensity in FY2019 and H1 FY2020, leading to comfortable debt protection metrics. The ratings also continue to favourably factor in the company's established relationship with major OEMs and its long operating history. The extensive experience of its promoters in manufacturing fasteners is another credit strength.

The ratings, however, continue to be constrained by SSPL's high customer concentration with the top three customers accounting for more than 70% of the sales. ICRA notes that the top customers are market leaders and the demand from the same will drive the future growth. Hence, the company will remain dependent on the same going forward. Moreover, there is high dependence on the two-wheeler (2W) segment, which makes the company prone to demand variations in OEMs. While SSPL's operating profits have been healthy, it remains exposed to exchange rate movements as 38% of the raw materials is imported with no hedging policies in place.

The Stable outlook on [ICRA]BBB rating reflects the fact that SSPL would continue to maintain its operational and financial performance over the medium term.

Key rating drivers and their description

Credit strengths

Revenues and profitability in FY2020 remain at similar levels as FY2019 – SSPL's revenue booking remains at similar levels in FY2020 despite the slowdown, mainly because of the acceptance of price hike request in the previous year by key clients as well as the addition of new customers. Further, the company's profit margins are healthier than peers due to the high mix of specialised fasteners and cost-saving measures implemented by it. Such efforts have enabled SSPL to maintain operating margins in the range of 18% over the last three years.

Established supplier of fasteners to major OEMs; steady business – The company has a track record of over two decades in manufacturing fasteners, which find application across end-user segments like 2Ws, passenger vehicles, tractors and consumer durables. Over the years, the company's key end users have been from the 2W segment, with which it enjoys repeat business. The top three clients contributed more than 70% of the overall sales in the last three years. As inherent in this sector, customer concentration remains high for SSPL with the total sale to the top three customers accounting for ~79% in H1 FY2020. ICRA, however, takes comfort from the fact that the top customers have remained with the company for the past many years, which translated into steady business for it, despite industry slowdown.

Healthy coverage metrics – The company's leverage was comfortable despite continuous debt-funded capex, duly supported by healthy margins and steady accretions. The gearing and debt/OPBDIT were comfortable at 0.97x and 1.89x, respectively. Despite the debt-funded capex, SSPL's debt coverage indicators remain comfortable as characterised by NCA/TD of 38%, interest coverage of 6.27x and DSCR of 2.49x as on March 31, 2019.

Comfortable working capital intensity – The company's working capital intensity gains support from letter of credit-backed payments to suppliers and good realisation period, which kept improving in the last three years. While the credit period offered varies from customer to customer, it is usually in the range of 60-90 days; the credit period received from suppliers is higher. With the company's product portfolio comprising a wide variety of products, its inventory requirement remains high. Going forward, ICRA expects the working capital cycle to be maintained at the current levels of 15–20%.

Credit challenges

Exposure to inherent cyclicality of domestic automotive industry – SSPL is exposed to cyclicality in the domestic automobile market. With the market currently witnessing a sharp slowdown in automobile sales, the company's financial performance has been impacted over the past two-three quarters. Accordingly, its earnings are likely to moderate in the near term, in line with the sharp slowdown across automotive segments and OEMs.

Limited product diversification – SSPL derives its entire revenues from the sales of automotive fasteners, a highly fragmented and competitive product segment with a large number of unorganised players. However, its presence in specialised fasteners has enabled it to maintain a dominant market position, and supports its margins compared to peers that are largely into standard fastener products.

High customer-concentration risk – A significant share of the company's revenues is derived from the top three clients, leading to high customer-concentration risk. However, ICRA draws comfort from SSPL's two-decade long association with the established players and healthy debtor quality, which mitigate the risk to some extent.

Exposure to forex rate fluctuations – The imported raw material constitutes around 38% of the total raw material demand, exposing the company's profitability to adverse fluctuations in foreign currency. The risk is further exacerbated by the fact that the company has no hedging policies in place. However, the same is mitigated to some extent as SSPL imports on six months usance LC through which it saves interest cost on working capital as well as hedging cost. Thus, these savings minimise the impact of forex fluctuations for the company.

Liquidity position: Adequate

SSPL's liquidity is **adequate** with healthy cash flow from operations, no major capex commitment in the near term and moderate working capital utilisation levels. Overall, ICRA expects SPPL to be able to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers: ICRA could upgrade SSPL's rating if there is a sustained improvement in its business risk profile, characterised by a significant scale up in operations with securing new contracts while maintaining the existing clientele along with maintaining profitability indicators, credit metrics and liquidity profile at healthy levels.

Negative triggers: ICRA could downgrade SSPL's rating if, for reasons including worsening of industry conditions resulting in decline in revenues and profitability, or worsening of the liquidity position leading to stretched working capital cycle and high utilisation of the existing limits. Specific credit metrics could include ROCE below 15% on a sustained basis.

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

Established in 1993, SSPL manufactures cold-forged high-tensile fasteners for the automobile and the consumer durables industry. The company manufactures standard fasteners as well as customised fasteners. SSPL has five manufacturing units in Haryana, three of which are located in Faridabad, one in Palwal and one in Bawal. The company is also backward integrated with wire drawing operations, which ensures ready and consistent supply of raw materials. SSPL was initially incorporated as a partnership firm named S.K. Industries, which was founded in 1976. Mr. S.K. Kapoor, the original promoter, has been heading the organisation for over three decades.

In FY2019, the firm reported a net profit of Rs. 13.70 crore on an OI of Rs. 202.45 crore compared to a net profit of Rs. 10.66 crore on an OI of Rs. 161.61 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	161.61	202.45
PAT (Rs. crore)	10.66	13.70
OPBDIT/OI (%)	19.20%	18.69%
RoCE (%)	21.6%	22.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.31	1.35
Total Debt/OPBDITA (times)	1.64	1.89
Interest Coverage (times)	5.48	6.27
DSCR	2.05	2.49

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2019		FY2018	FY2017
					31-Jan-20	26-Mar-19	7-Feb-19	22-Mar-18	31-Dec-16
1	Cash Credit	Long Term	20.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	23.0	23.0	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
3	Stand by line of credit	Short Term	2.5	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA] A3	[ICRA] A3
4	Letter of Credit	Short Term	11.5	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA] A3	[ICRA] A3

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	20.0	[ICRA]BBB (Stable)
NA	Term Loan	FY2014	8.8%-9.1%	FY2024	23.0	[ICRA]BBB (Stable)
NA	Stand by line of credit	-	-	-	2.5	[ICRA] A3+
NA	Letter of Credit	-	-	-	11.5	[ICRA] A3+

Source: SSPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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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.

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