



Press Release
SA A B ENGINEERING
February 18, 2022
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	75.00	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	75.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.75.00 Cr bank facilities of Saab Engineering (SE). The outlook is '**Stable**'

The rating upgrade is driven by the improvement of business risk profile marked by a healthy improvement in operating income and profitability. The operating income of the firm registered a Yo-Y growth of ~12 per cent at Rs. 218.21 Cr in FY 2021 as against Rs. 194.49 Cr in the previous year. The operating margins improved to 12.09 per cent in FY2021 as against 8.21 per cent in FY2020, mainly on account of addition of Capex and modernisation undertaken for the existing machinery, thereby resulting in overall efficiency of the company. The firm reported Rs.216 Cr till January 2021 and operating income expected to grow by 15 per cent in FY2022. Further the rating reaffirmation takes cognizance from the vast experience of the promoters in the automotive components industry, its extensive track record of operations and established relationships with customers and suppliers. The aforementioned strengths are partially offset by its working capital-intensive nature of operations, moderate scale of operations, vulnerability of its margins to raw material fluctuations and customer concentration risk and stiff competition industry.

About the Firm

Saab Engineering (SE) is a Bangalore based partnership firm established in 1989. SE is promoted by Mr. Ajay Balagopal and Mr. Sanjiv Balagopal. SE has four manufacturing units with facilities for forging and machining of automotive components. The firm manufactures various automotive components and supplies components to several reputed players Lucas TVS Ltd, SEG Automotive - Group, Bosch-Group, Schaeffler Group, Valeo India Private Limited, Subros Ltd among others.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of SE to arrive at the rating.

Key Rating Drivers

Strengths

Extensive experience of promoters and strong customer base

Established in 1989, the promoters have over 3 decades of experience in the engineering and auto ancillary industry and are actively involved in its day-to-day operations. It has helped to

a build healthy relationship with its suppliers and customers to ensure a steady raw material supply and repeat business from its customers. SE is a prominent supplier of automotive component parts to leading automobile players including Lucas TVS Ltd, SEG Automotive - Group, Bosch-Group, Schaeffler Group, Subros Ltd which contributes to over 70-80 percent of its revenues. Established relationship with reputed customers has resulted in compound annual growth rate (CAGR) of about 16 percent over the past three years through FY2021 at Rs.218 Cr. Acuité believes that the industry experience and domain knowledge of the management and reputed clientele are expected to improve its business risk profile over the medium term.

Above-average financial risk profile

SE's financial risk profile is above-average marked by modest net worth, high gearing (debt-to-equity), high total outside liabilities to total net worth (TOLTNW) and comfortable debt protection metrics. SE's net worth is moderate at Rs.45.39 Cr as on March 31, 2021 as compared to Rs.36.71 Cr as on March 31, 2020. Gearing stood high at 1.82 times as on March 31, 2021 against 1.85 times as on March 31, 2020. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.10 times as on March 31, 2021 as against 3.07 times as on March 31, 2020. Its debt protection metrics are comfortable marked by its NCA/TD and interest coverage ratio of 0.20 times and 4.33 times in FY2020 (provisional) vis-à-vis 0.15 times and 2.73 times in FY2020, respectively. Acuité believes that with moderate accruals and no significant debt-funded capex plans, the financial risk profile is expected to moderate over the medium term.

Weaknesses

Working capital intensive nature of operations

SE's operations remained working capital intensive with Gross Current Assets (GCA) of 135-195 days over the past three fiscals ended through March 31, 2021, due to moderate inventory management and receivables. The inventory days ranged between 73-95 days and debtor's days ranged between 68-106 days during the last three years ended with March 31, 2021. To support the working capital, the company stretches the creditors to an extent of about 91-144 days which led to a weak current ratio of below 1.06 times in the past. Its bank limits are utilised high about 95 percent during past 6 months through December 2020. Acuité believes that the operations of the SE will remain working capital intensive over the medium term.

Moderate scale of operations and profitability

The SE's scale of operations remains moderate, with operating income at Rs. 218.21 Cr as of FY2021 over Rs. 194.49 Cr in FY2020. With commercialisation of new machinery and a better end-user demand scenario, SE's is expected to report sales in the range of Rs.240-250 Cr for the current year in FY2022; however, the scale will continue to remain at moderate levels. SE's operating profitability improved to 12 percent in FY2022 from 8 percent in FY2020 aided by the SE's efforts to increase its localisation levels with a view of improving operational efficiency. Acuité believes that the operations of the SE will remain working capital intensive over the medium term.

Competitive and fragmented industry

The company operates in a highly fragmented industry, characterised by intense competition owing to low-entry barriers, which limits the margins and scale. It is further exposed to the inherent cyclicity associated with the automotive industry any prolonged slowdown in the end-user industry could adversely impact its performance. The growth of auto component manufacturer will continue to be driven by volume growth of its key OEMs. Auto ancillaries with exposure to OEMs are witnessing increased competition having limited scope for volume growth; further, it exerts pressure on the profitability also. The operating margins have been volatile year-over-year from 15.07 per cent in FY2019 to 8.21 per cent in FY2020 and 12.09 percent in FY2021. Volatile margins are owing to fluctuations in raw material prices, limited bargaining power and limited flexibility to pass on the prices to the customers. Additionally, vulnerability of revenues and profitability to cyclical trends in the automobile industry; demand disruption because of the pandemic, are expected to affect revenues and margins in FY2020.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely
- Further stretch in the working capital cycle

Material covenants

None

Liquidity Position: Adequate

SE's liquidity position remains adequate as reflected in its adequate net cash accruals to its maturing debt obligations; albeit constrained by high utilisation of working capital limits. SE has reported cash accruals of Rs.10.07 Cr to 19.58 Cr during last 3 years ended through FY2021 as against repayment obligations of about Rs.7.00 Cr to 12.00 Cr during the same period. Its cash accruals are expected in the range of Rs.15-20Cr over the medium term against repayment obligations of about Rs.8-12 Cr during the same period. Liquidity is constrained by its highly utilized working capital limits at about 95 per cent for the last nine months through December 2021. The current ratio stood weak at 1.06 times as on March 31, 2021. Acuité believes that though cash accruals are adequate, however, managing the working capital intensive operations will remain a key rating sensitivity factor.

Outlook: Stable

Acuité believes that SE will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience and established relations with customers. The outlook may be revised to 'Positive' in case of a significant improvement in its revenues while improving the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' if there is any steep decline in the company's revenue or profitability or further deterioration in the working capital cycle, or further weakening of its current ratio, or any significant debt-funded capital expenditure leading to the deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	218.21	194.49
PAT	Rs. Cr.	8.03	2.19
PAT Margin	(%)	3.68	1.12
Total Debt/Tangible Net Worth	Times	1.82	1.85
PBDIT/Interest	Times	4.33	2.73

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Nov 2020	Cash Credit	Long Term	22.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	2.98	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	3.14	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	0.04	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	6.01	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	1.70	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	5.33	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	0.60	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.20	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Working Capital Demand Loan	Long Term	2.20	ACUITE BBB- Stable (Assigned)
	Bills Discounting	Short Term	11.50	ACUITE A3 (Upgraded from ACUITE BB+)
	Proposed Bank Facility	Long Term	11.68	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	4.34	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.28	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
13 Apr 2020	Packing Credit	Short Term	1.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	3.99	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	5.34	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bills Discounting	Short Term	11.50	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	7.64	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	0.52	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	17.81	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	18.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	3.20	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	0.76	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.19	ACUITE BB+ (Downgraded and Issuer not co-operating*)
		Long		ACUITE BB+ (Downgraded and Issuer not co-operating*)

	Term Loan	Term	0.09	co-operating*)
	Term Loan	Long Term	1.96	ACUITE BB+ (Downgraded and Issuer not co-operating*)
31 Jan 2019	Term Loan	Long Term	7.64	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.99	ACUITE BBB- Stable (Reaffirmed)
	Bills Discounting	Short Term	11.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	5.34	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Proposed Long Term Loan	Long Term	17.81	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.96	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.20	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.76	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.09	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.52	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.19	ACUITE BBB- Stable (Reaffirmed)
05 Nov 2018	Cash Credit	Long Term	18.00	ACUITE BBB- (Reaffirmed)
	Packing Credit	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB- (Reaffirmed)
	Bills Discounting	Short Term	4.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE BBB- (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB- (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB- (Reaffirmed)
	Term Loan	Long Term	4.40	ACUITE BBB- (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.17	ACUITE BBB- (Reaffirmed)
	Term Loan	Long Term	3.61	ACUITE BBB- (Reaffirmed)
	Term Loan	Long Term	0.87	ACUITE BBB- (Reaffirmed)
	Proposed Long Term Loan	Long Term	3.02	ACUITE BBB- (Reaffirmed)

17 Sep 2018	Cash Credit	Long Term	16.00	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	3.21	ACUITE BBB- (Issuer not co-operating*)
	Packing Credit	Short Term	1.00	ACUITE A3 (Issuer not co-operating*)
	Bills Discounting	Short Term	4.00	ACUITE A3 (Issuer not co-operating*)
	Term Loan	Long Term	9.00	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	5.00	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	5.00	ACUITE BBB- (Issuer not co-operating*)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Issuer not co-operating*)
	Term Loan	Long Term	4.40	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	0.17	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	3.61	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	0.87	ACUITE BBB- (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	1.31	ACUITE BBB- (Issuer not co-operating*)
16 Aug 2017	Cash Credit	Long Term	16.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.21	ACUITE BBB- Stable (Assigned)
	Packing Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	4.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	4.40	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.17	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.61	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.87	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Loan	Long Term	1.31	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BBB Stable Upgraded
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	32.00	ACUITE BBB Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.58	ACUITE BBB Stable Upgraded
ICICI Bank Ltd	Not Applicable	Term Loan	01-04-2016	Not available	01-10-2024	3.75	ACUITE BBB Stable Upgraded
ICICI Bank Ltd	Not Applicable	Term Loan	01-04-2016	Not available	01-10-2024	1.98	ACUITE BBB Stable Upgraded
ICICI Bank Ltd	Not Applicable	Term Loan	01-04-2016	Not available	01-10-2024	2.06	ACUITE BBB Stable Upgraded
Small Industries Development Bank of India	Not Applicable	Term Loan	20-11-2017	Not available	10-10-2022	2.41	ACUITE BBB Stable Upgraded
Small Industries Development Bank of India	Not Applicable	Term Loan	25-09-2019	Not available	10-08-2025	1.41	ACUITE BBB Stable Upgraded
Small Industries Development Bank of India	Not Applicable	Term Loan	28-01-2021	Not available	10-10-2029	6.40	ACUITE BBB Stable Upgraded
Small Industries Development Bank of India	Not Applicable	Term Loan	08-07-2019	Not available	10-10-2024	2.45	ACUITE BBB Stable Upgraded
Small Industries Development Bank of India	Not Applicable	Term Loan	01-01-2021	Not available	01-01-2026	2.72	ACUITE BBB Stable Upgraded
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	0.74	ACUITE BBB Stable Upgraded

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