Press Release

Shriniwas Engineering Auto Components Private Limited

D-U-N-S® Number: 91-613-0174

March 13, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 444.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A-**' **(read as ACUITE A minus)** and short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs. 444.00 crore bank facilities of Shriniwas Engineering Auto Components Private Limited (SEACO). The outlook is **'Stable'**.

SEACO was established as a partnership firm in 1986 by Mr. Giridhari Shriniwas Kale and Mrs. Prajakta Giridhari Kale. Later on, it was reconstituted as a private limited company in 2005. The company has its foundry located at Talegaon in Maharashtra and machine work units located at Talegaon, Maval, Bhosari and Talawade in Maharashtra and at Rudrapur in Uttarakhand. The company is engaged in manufacturing auto castings for reputed OEMs like TATA Motors, Mahindra & Mahindra, Kubota, Husco, Bosch and Fiat among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Shriniwas Engineering Auto Components Private Limited (SEACO) to arrive at the rating.

Key Rating Drivers

Strengths

- **Long standing relationship with marquee OEMs**

  Established in 1986, the company has been engaged in the manufacturing of auto castings for more than three decades with its facilities located at Maharashtra and Uttarakhand. Company is presently managed by Mr. Giridhari Shriniwas Kale and his family. The key promoter of SEACO,Mr. Giridhari Shriniwas Kale has been associated with the auto component industry for more than four decades. The management is ably supported by a well-qualified and experienced team of professionals. The company has long standing business relationships with marquee clients such as TATA Motors, JCB, Daimler India and Mahindra & Mahindra. SEACO is the single source supplier for 110 components of high end castings (90 kg. and above) for TATA Motors and Mahindra and Mahindra. Further, TATA Motors, through TATA Capital Special Situation Fund, had invested Rs.70.00 crore in the company in 2012 through optionally convertible preference shares. The extensive experience of the promoters in the industry has helped the company establish its market presence among reputed OEMs thereby enabling efficient working capital management. The same is also reflected through healthy revenue growth over the last 3 years through 2017-18. The company's revenue grew at a CAGR of ~20 percent to Rs.705.38 crore over the aforementioned period. Acuité believes that the company will continue to benefit through the promoter's industry experience and established relations with its clients over the medium term.

- **Expected improvement in financial risk profile**

  SEACO has moderate financial risk profile marked by healthy net worth, moderate gearing and moderately healthy debt protection measures. SEACO's net worth is healthy at Rs.220.94 crore as on March 31, 2018 including unsecured loans of Rs.55.00 crore treated as quasi equity. The debt-EBITDA ratio deteriorated from 2.27 in FY2016 to 3.50 times in FY2018. This is due to an increase in debt levels from 252.24 crore in FY2016 to Rs. 429.10 crore in FY2018. The term debt borrowings increased from Rs.

107.33 crore in FY2016 to Rs.202.86 crore in FY2018.This is mainly on account of large debt funded capex over 2016-18. The company added 160 units to the machine work line during the capex programs from 2016-2018. This resulted in an increase in gross block from Rs.410.70 crore in FY2016 to Rs.577.05 crore in FY2018. The company also provided exit to TATA Capital Special Situation Fund through buyback of preference shares. Acuité believes that the company will be able to leverage on the past capex programs. Acuité expects moderation over the capex programs in 1-2 years in the range of Rs. 50 - 60 crore annually. Further, the company also expects a sizeable growth in accruals on the back of increased capacities of machine shop. Gradual repayment of existing term loans coupled with robust cash flows from operations is expected to result in an improvement to the debt-EBITDA levels to around 2x times by FY2020. Annual repayment obligations for FY2020 are expected to be at Rs. 49.00 crore against which the accruals are expected to be around Rs.130.41 crore. The ability of SEACO to achieve optimal capacity utilization while managing profitability and working capital cycles will be key monitorables. Any challenges faced in achieving the optimal utilization levels will impact SEACO's operating profitability levels and thereby impeding its ability to achieve improvement in financial indicators.

Weaknesses

- **Susceptibility of the operating performance to the off take by key clients**

SEACO manufactures auto castings and components mainly for Heavy Commercial Vehicles (HCVs), vehicles used as construction equipment and tractors. Sale to tractor manufacturing companies constitutes 45 percent of the total revenue of the company. The remaining revenue is constituted from the sale to HCV and construction equipment manufacturers. The sale and demand for HCVs is directly linked to the economic activity in the country. Demand for construction equipments is linked to the level of infrastructural development undertaken by private and public sector. Any slowdown in the pace of infrastructural development by the government due to reasons like fiscal constraint will impact the demand for construction equipments which will in turn affect the volumes of players like SEACO. Further, increase in demand for tractors is linked to the level of agricultural activity in the country. Any slowdown in the level of agricultural activity due to factors such as monsoons and other climatic conditions will directly impact the demand for tractors. Mahindra and Mahindra and TATA Motors are the primary customers for SEACO. For FY2018, Mahindra and Mahindra contributed 32 percent and TATA Motors contributed 21 percent to the total revenue of the company. Acuité believes that SEACO will continue to remain exposed to the volatility in demand of its key segments and the diversification of its product profile across clients and across product categories.

Outlook: Stable

Acuité believes that the outlook on SEACO will remain 'Stable' over the medium term on account of its promoter's extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Liquidity Position

SEACO has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.68 to 85 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.40 - 51crore over the same period. The cash accruals of the company are estimated to remain around Rs.100 - 150 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 48 – 55 crore. The company's operations are moderately moderately working capital intensive as marked by gross current asset (GCA) days of 172 in FY2018. This is mainly on account of a significant amount of Rs. 76 crore of subsidy receivable being classified in current assets. This has led to increased reliance on working capital borrowings; the cash credit limit in SEACO remains utilized at 95 percent during the last 12 months period ended December 2018. The company maintains unencumbered cash and bank balances of Rs.4.73 crore as on March 31, 2018. The current ratio of the company stands weak at 1.13 times as on March 31, 2018. The SEACO is likely to incur capex of Rs.50 – 70 crore over the medium which is likely to be funded by internal accruals. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of expected healthy cash accruals over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	705.38	657.50	481.33
EBITDA	Rs. Cr.	120.97	139.54	110.57
PAT	Rs. Cr.	37.58	56.89	45.44
EBITDA Margin	(%)	17.15	21.22	22.97
PAT Margin	(%)	5.33	8.65	9.44
ROCE	(%)	14.49	19.56	32.05
Total Debt/Tangible Net Worth	Times	1.94	2.07	0.89
PBDIT/Interest	Times	2.29	2.57	2.61
Total Debt/PBDIT	Times	3.50	2.95	2.27
Gross Current Assets (Days)	Days	172	176	194

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

India Ratings, vide its press release dated May 11, 2018 had denoted the rating of SEACO as 'IND BBB+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	160.00	ACUITE A- / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	249.46	ACUITE A-/Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A2+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	21.75	ACUITE A2+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.79	ACUITE A-/Stable

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