

Press Release

Saa Ab Engineering Private Limited (Erstwhile Saab Engineering)

May 19, 2023



Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE t riple B**) on the Rs.75.00 Cr bank facilities of SAA AB Engineering Private Limited (SEPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation takes into account the stable operating and financial performance of SEPL, marked by stable operating income, range bound operating margins and moderate financial risk profile. The company's experienced management with an established track record of operations and its reputed clientele plays an important role.

The rating is however constrained by the company's moderately working capital-intensive operations, high bank limit utilisation, and operations in a highly competitive and fragmented industry.

Going forward, ability of SEPL to maintain its scale of operations and profitability margins, while improving and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

Saab Engineering (SE) was a Bangalore based partnership firm established in 1989 which later got converted to a private limited company in March 2021, and currently known as SAA AB Engineering Private Limited (SEPL). The company is engaged in manufacturing of various automotive and engineering components, and it has six manufacturing units with facilities for forging and machining of components.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management with an established track record of operations and reputed clientele

SEPL has an operational track record of more than three decades. Mr. Ajay Balagopal and Mr. Sanjiv Balagopal are the promoters of the company, having an extensive experience of

over three decades in the engineering and auto ancillary industry. They are supported seasoned professionals in managing the daily operations. These factors have enabled SEPL establishing a healthy relationships with reputed clienteles like - Lucas TVS Ltd, SEG Automotive Group, Bosch Group, Schaeffler Group, Valeo India Private Limited, Subros Ltd. amongst the others.

Acuité believes that SEPL will continue to benefit from its experienced management with an established track record of operations, and the reputed clientele.

Moderate financial risk profile

Financial risk profile of SEPL is moderate marked by moderate net worth, low gearing and moderate debt protection metrics. The tangible net worth of the company improved to Rs.57 Cr in 31 March, 2022 from the Rs.45 Cr in 31 March, 2021 due to accretion to reserves. The gearing (debt-equity) stood at 1.59 times in 31 March, 2022, against 1.82 times as on 31 March, 2021. The gearing of the company is expected to improve further and shall remain low over the medium term on account of absence of any debt funded capex plans. The total debt of Rs.91 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.42 Cr, short term bank borrowings of Rs.47 Cr and unsecured loans from directors of Rs.2 Cr.

The interest coverage ratio and DSCR declined at 3.62 times and 1.30 times for FY2022 as against 4.33 times and 1.44 times for FY2021. The Net Cash Accruals to Total debt stood at same level of 0.20 times for FY2022 and FY2021. The Total outside liabilities to Tangible stood at 2.44 times for FY2022, against 3.10 times for FY2021. The Debt-EBITDA ratio stood marginally high at 3.65 times for FY2022 as against 3.03 times for FY2021.

Acuité believes that the financial risk profile of SEPL will remain comfortable over the medium term due to its improving operating performance, moderate debt levels vis-à-vis moderate tangible net worth, and comfortable debt protection metrics.

Increase in revenue and profitability

SEPL reported an increase in its revenue of Rs.366 Cr in FY2023 (Estimate) as against Rs.276 Cr in FY2022 and Rs.218 Cr in FY2021. This is primarily on account of the automobile industry - post the pandemic phase, leading to an increase in demand for the various automotive components manufactured by the company, such as pulleys, spark plugs, pinions, rotors, hubs, etc., which are automotive necessities. The Domestic sales of the company increased to 92 percent in FY2023 (Estimate), as against 84 percent in FY2022 and 76 percent in FY2021. Further, the operating margin and net profit margin of the company improved to 10.95 percent and 4.42 percent in FY2023 (Estimate) as against 8.54 percent and 3.40 percent in FY2022 on account of overall improvement in the company's scale of operations.

Acuité believes that ability of SEPL to maintain its scale of operations and profitability will remain a key rating sensitivity factor.

Weaknesses

Moderately working capital intensive operations

The working capital operations of SEPL are moderately intensive, marked by the Gross Current Assets (GCA) of 158 days for FY2022, as against 197 days for FY2021. This is due to the elongated inventory and receivables cycle of the company, which further recorded an improvement in FY2022 of 79 days and 78 days as against 95 days and 106 days in FY2021. The creditors cycle of the company also improved to 95 days in FY2022 against 144 days in FY2021. The average bank limit utilization for 6 months' period ended February 2023 however stood high at ~97 percent.

Acuité believes that the ability of SEPL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Competitive and fragmented industry

SEPL operates in a highly fragmented industry, subjected to intense competition due to the low-entry barriers, which limits the margins and scale. It is further exposed to the inherent

cyclicality associated with the automotive industry, and a subsiding end-user industry could adversely impact its performance. The growth of auto component manufacturers will continue to be driven by volume growth of their key OEMs. Auto ancillaries with exposure to OEMs are witnessing increased competition with limited scope for volume growth, putting considerable pressure on the profitability. The operating margins have been volatile year-over-year from 8.21 per cent in FY2020 to 12.09 per cent in FY2021 and 8.54 percent in FY2022. Volatile margins caused by fluctuations in raw material prices, limited bargaining power and limited flexibility to pass on the prices to the customers.

Rating Sensitivities

- Ability to maintain scale of operations and profitability.
- Ability to improve and maintain an efficient working capital cycle.

Material covenants

None

Liquidity position - Adequate

SEPL has an adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.10 Cr to Rs.18 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.10 Cr to Rs.12 Cr during the same period. Going forward the NCA are expected in the range of Rs.25 Cr to Rs.33 Cr for period FY2023-FY2025 against its repayment obligation in the range of Rs.12 Cr to Rs.5 Cr during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 158 days for FY2022. The average bank limit utilization for 6 months' period ended February 2023 however stood high at ~97 percent. Current ratio stands at 1.16 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.54 Cr in FY2022.

Acuité believes that the liquidity of SEPL is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that SEPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations and reputed clientele. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	275.94	218.21
PAT	Rs. Cr.	9.39	8.03
PAT Margin	(%)	3.40	3.68
Total Debt/Tangible Net Worth	Times	1.59	1.82
PBDIT/Interest	Times	3.62	4.33

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

Not applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Feb 2022	Cash Credit	Long Term	18.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	6.40	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	2.41	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Working Capital Demand Loan	Long Term	0.74	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	0.58	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	3.75	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	2.06	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	2.72	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	1.98	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	2.45	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	32.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	1.41	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	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+)

24 Nov 2020	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+)
		Short		ACUITE BB+ (Downgraded and Issuer not co-operating*)
13 Apr 2020	Packing Credit	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*)
	Term Loan	Long Term	0.09	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	1.96	ACUITE BB+ (Downgraded and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.50	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.58	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.75	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.98	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.06	ACUITE BBB Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.41	ACUITE BBB Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.41	ACUITE BBB Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.40	ACUITE BBB Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.45	ACUITE BBB Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.72	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	0.74	ACUITE BBB Stable Reaffirmed

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