

August 05, 2021

## SAC Engine Components Private Limited: Ratings reaffirmed; outlook revised to Stable

### Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Term Loans	50.00	50.00	[ICRA]A- reaffirmed; outlook revised to Stable from Negative
Long Term - Fund based CC	45.00	45.00	[ICRA]A- reaffirmed; outlook revised to Stable from Negative
Short Term - Unallocated	4.42	4.42	[ICRA]A2+; reaffirmed
<b>Total</b>	<b>99.42</b>	<b>99.42</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating action factors SAC Engine Components Private Limited's (SAC) healthy market position in the domestic camshaft industry, diversified revenue profile across end-user segments with a blend of auto and non-auto segments, exposure to global markets (37.5% exports). The ratings remain supported by SAC's strong financial profile, characterised by healthy operating margins (23.1% for FY2021) and healthy debt protection metrics with gearing at 0.8 times and total debt to OPBDITA at 1.9 times as of March 31, 2021. The ratings remain supported by SAC's established track record in manufacturing camshafts and tappets, promoter's vast industry experience and the company's reputed client base.

The ratings also consider the slowdown in the Indian auto component industry in recent period and cautious outlook for domestic/global automotive segments, however SAC is relatively insulated given its diversified presence. In FY2021, demand from the domestic tractor segment was favourable and accounted for ~30% of SAC's total revenues thus leading to lesser impact of pandemic on overall results. The ratings also consider SAC's vulnerability of earnings to the fluctuations in input prices, product and customer concentration risks, although the same are mitigated by wide end-use potential for its product portfolio and the long-standing relationship with its clientele.

SAC's performance in FY2021 was stable with revenues increasing by 0.9% YoY primarily on account of healthy demand in the tractor segment which contributed to ~30% of SAC's total revenues in FY2021. The operating margins however improved by 300 bps on the back of cost reduction initiatives undertaken by the company to remain prudent during an economic downturn. Accordingly, the coverage indicators was satisfactory with Total debt/OPBITDA of 1.9 times in FY2021 (vs 2.0 times in FY2020) and interest cover of 7.6 times in FY2021 (vs. 5.7 times in FY2020).

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that SAC's stable business profile will support its scale of operations and earnings in FY2022. In the absence of major debt funded capital expenditure, SAC's capitalisation and coverage metrics is expected to be satisfactory.

### Key rating drivers and their description

#### Credit strengths

**Promoter's vast experience lends business stability** - SAC has a long track record of manufacturing critical engine components for automobile industry. The promoters have four decades of experience in the engineering and automotive industry and have been supported by a well-qualified and experienced management team.

**One of the leading camshaft manufacturers in South India catering to reputed clientele** - SAC's business risk profile is strong with its established market position in the safety critical camshaft market, tappets and rocker arms. SAC generates over three-

fourths of its revenue from camshaft casting including both machined and semi-finished camshafts; while the balance is from tappets and rocker arms during FY2021. With presence of over three decades, SAC has developed strong relationships with Original Equipment Manufacturers, both within domestic and international markets. Key customers include Mahindra and Mahindra Limited, JCB India Limited, Simpson and Co., Perkins Engines Company Limited, etc.

**Diversified end-user segment mix consisting of both automotive and non-automotive segments** – SAC has a diversified revenue profile with presence across the automotive and non-automotive industry. While the bulk of its revenues came from the tractor (29.7%) and utility vehicle (28.3%) segments in FY2021, SAC's product mix remains diversified across commercial vehicles (CV), off the road (OTR) vehicles, power generators and two-wheelers. Going forward, the diversified segment profile along with SAC's established relationship with major OEMs and 100% share of business of served models in automotive segment are expected to support its revenues.

### Credit challenges

**Vulnerability of revenues and profitability to cyclical trends in automobile industry** – Camshaft is a critical component that is necessary for the functioning of an engine and hence any cyclicity in automobile demand has an impact on the auto ancillary demand. The demand scenario is impacted by general economic or industry conditions, including seasonal trends in the automobile manufacturing sector, volatile fuel prices, rising employee expenses and challenges in maintaining amicable labour relations as well as evolving regulatory requirements, government initiatives, trade agreements, etc.

Muted auto demand on the back of Covid-19 led pandemic, had impacted SAC's revenues during FY2021, with revenue decline of 23.4% in the commercial vehicles (CV) segment. SAC derived more than half of its revenues in FY2021 from automotive and construction equipment industries. However, the impact of ongoing slowdown is cushioned by the fact the company derives about a third of its revenues from the tractor segment (wherein current demand is supported by rural demand) and presence of diversified end-user segments in the non-automotive space such as stationary engines, generators, etc. The tractor industry is, expected to register a single-digit growth in FY2022, supported by favourable rural demand; however, the trajectory of demand recovery in PV, CV and industrial segments will be a key monitorable for SAC's performance.

**Product and client concentration risks** – With over three-fourths of its revenues derived from a single product – camshafts – SAC remains exposed to product concentration risks. Moreover, the company derives over half of its revenues from top three customers. However, the same is mitigated by the fact the product is a critical product, has diversified end-use applications and the presence of long-standing relationship with reputed client base.

**Susceptibility of earnings to Commodity inflation** – Raw materials (RM) and consumables accounted for ~38% of the operating income in FY2021. The key raw materials include mild steel (M.S) scrap and pig iron, together accounting for most of the total raw materials used in the manufacturing process. A typical camshaft cost structure would have 30-40% of raw materials, power & fuel of 10-12%, labour of 8-10% and other manufacturing costs of 4-6%. The prices of raw materials have increased by ~5 – 6% in FY2021. However, the company has pass through clauses with OEMs to pass on any RM price volatility, albeit with a lag of three to six months.

### Liquidity position: Adequate

SAC's liquidity position is **adequate** and is supported by healthy accruals (~Rs.30 crore per annum). It has debt repayment obligations of Rs ~16 crore per annum over the next three years and is estimated to spend a capex of ~Rs. 20 crore per annum over FY2022 to FY2024. The capex will be funded through a combination of fresh term loans and internal accruals. ICRA expects the company to be able to meet its near-term commitments through internal as well as external sources of funds. Working capital utilisation has remained at moderate levels with buffer on sanction limits - average utilisation for the past 11-months ended June 2021 stood at 60.5% of the sanctioned limits. The company has also availed a covid line of Rs. 4.5 crore and ECLGS loan of Rs. 18.7 crore to buffer its liquidity position.

### Rating sensitivities

**Positive factors** – An upward trigger in rating could arise from SAC's ability to achieve sustained growth in revenues and earnings profile, while maintaining its liquidity profile, and capitalisation and coverage metrics.

**Negative factors** – Negative pressure on the ratings could emerge with sharp deterioration in the earnings or liquidity profile or a significant debt-funded capex leading to deterioration in overall credit profile. Specific credit metrics that could lead to a rating downgrade include DSCR of less than 1.8 times or RoCE less than 15% on a sustained basis.

### Analytical approach

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

### About the company

SAC Engine Components Private Limited (SAC), established in the year 1986 as a partnership firm and later incorporated in 1991 as Southern Auto Castings Private Limited, manufactures raw/ machined castings targeting the automotive industry and power generation sector. SAC is a tier I/II auto component manufacturer supplying to major auto OEMs and auto ancillaries both in the domestic and global markets. The company manufactures camshafts, valve tappets (cam followers) and rocker arms for diesel and gasoline engines in specialized grey iron, ductile iron and hardened iron/ steel. The company changed its name to SAC Engine Components Private Limited in FY2011, to differentiate itself from generic foundries and to position itself as an engine component manufacturer. SAC has three manufacturing units (one foundry and two machining) and one more manufacturing unit for machining is set up in the SIPCOT Industrial Complex (government promoted) in Thiruvallur district near Chennai, Tamil Nadu and has employee strength of ~1,300 without any unions.

### Key financial indicators

Standalone	FY2020	FY2021 *
Operating Income (Rs. crore)	226.4	228.4
PAT (Rs. crore)	17.2	21.4
OPBDIT/OI (%)	20.1%	23.1%
PAT/OI (%)	7.6%	9.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Debt/OPBDIT (times)	2.0	1.9
Interest Coverage (times)	5.7	7.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \* - provisional results

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Aug 05, 2021	Oct 23, 2020	Jun 01, 2020	Sep 13, 2019	Sep 28, 2018	
1	Fund-based facilities CC	Long Term	45.0	-	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	
2	Term Loan	Long Term	50.0	64.5	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	
3	Unallocated	Short Term	4.42	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facilities CC	Simple
Term Loan	Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Long Term: Fund based facilities CC	-	-	-	45.00	[ICRA]A- (Stable)
-	Term Loan III	FY2019	8.9%	FY2023	3.01	[ICRA]A- (Stable)
-	Term Loan V	FY2019	8.9%	FY2025	7.02	[ICRA]A- (Stable)
-	Term Loan VI	FY2019	8.9%	FY2024	2.23	[ICRA]A- (Stable)
-	Term Loan VI (1)	FY2019	8.9%	FY2024	1.49	[ICRA]A- (Stable)
-	Term Loan VI (2)	FY2019	8.9%	FY2024	1.28	[ICRA]A- (Stable)
-	Term Loan VI (3)	FY2019	8.9%	FY2023	1.21	[ICRA]A- (Stable)
-	Term Loan VI (4)	FY2019	8.9%	FY2025	0.48	[ICRA]A- (Stable)
-	Term Loan VI (5)	FY2019	8.9%	FY2025	0.77	[ICRA]A- (Stable)
-	Term Loan VI (6)	FY2019	8.9%	FY2025	2.72	[ICRA]A- (Stable)
-	Term Loan VI (7)	FY2019	8.9%	FY2025	4.38	[ICRA]A- (Stable)
-	Term Loan VI (8)	FY2019	8.9%	FY2025	3.66	[ICRA]A- (Stable)
-	Term Loan VII	FY2020	8.3%	FY2025	14.09	[ICRA]A- (Stable)
-	Term Loan VIII	FY2021	9.0%	FY2022	3.38	[ICRA]A- (Stable)
-	Term Loan IX	FY2021	8.3%	FY2027	4.28	[ICRA]A- (Stable)
-	Short Term: Unallocated	-	-	-	4.42	[ICRA]A2+

Source: Company

### Annexure-2: List of entities considered for consolidated analysis: Not Applicable

## ANALYST CONTACTS

**Shamsher Dewan**

+91 12 4454 5300

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

**Nithya Debbadi**

+91 40 4067 6515

[Nithya.Debbadi@icraindia.com](mailto:Nithya.Debbadi@icraindia.com)

**Srikumar K**

+91 44 4596 4318

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

**Nareshkumar N**

+91 95972 60257

[nareshkumar.n@icraindia.com](mailto:nareshkumar.n@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)

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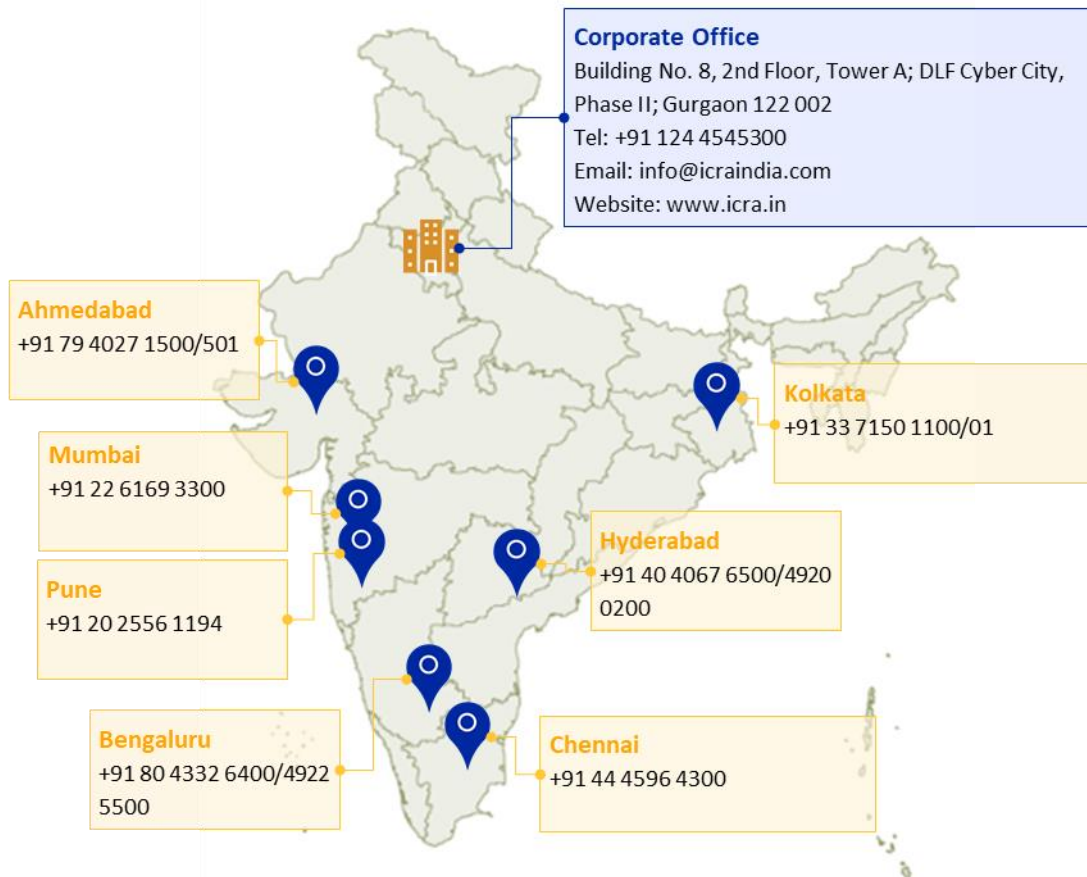
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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