

October 12, 2022

## SAC Engine Components Private Limited: Long term rating upgraded; Short term rating reaffirmed; Rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loan	50.00	55.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable); assigned for enhanced amount
Long Term – Fund based facilities – Cash Credit	45.00	30.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Short Term – Fund Based facilities		20.00	[ICRA]A2+ reaffirmed/assigned for enhanced amount
Proposed fund-based facilities		25.00	Long term rating upgraded to [ICRA]A(Stable) from [ICRA]A-(Stable); short term rating reaffirmed at [ICRA]A2+/assigned for enhanced amount
Short Term – Unallocated	4.42	-	-
<b>Total</b>	<b>99.42</b>	<b>130.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action factors in the healthy improvement in the performance of SAC Engine Components Private Limited (SAC) during FY2022 and H1 FY2023 supported by its diversified revenue profile with presence across end-user segments (including automotive, tractors, farm equipment, off-road, power generators, industrial engines, aerospace etc.). The ratings are also supported by SAC's strong business profile as reflected by its healthy market position in the domestic camshaft industry, promoter's vast industry experience, reputed client base and strong wallet share with key customers. SAC's financial profile remains comfortable marked by a strong growth in revenues and earnings, healthy coverage and leverage metrics with Total Debt / OPBITDA of 1.4 times and DSCR of 2.2 times in FY2022. In 5M FY2023, SAC has generated revenue of ~Rs. 150 crore and is expected to clock over Rs. 350 crore in FY2023. Net cash accruals and OPBITDA in FY2022 reached its pre-covid levels and is expected to improve further in FY2023 on the back of increasing scale and softening of commodity prices.

The ratings remain constrained by SAC's moderate scale of operations, vulnerability of earnings to any slowdown in end-user industry demand, fluctuations in input prices, as well as product and customer concentration risks. However, the same is mitigated by the wide end-use potential for its product portfolio and the long-standing relationship with its clientele.

The Stable outlook on the long-term rating reflects ICRA's opinion that SAC's stable business profile will support its scale of operations and earnings and the expectation that its capitalization and coverage metrics shall continue to remain healthy.

### 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 sales (including both machined and semi-finished camshafts), while the balance is from sale of tappets and rocker arms. 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** - SAC has a diversified revenue profile with presence across segments like automotive, tractors, farm equipment, off-road, power generators, industrial engines, aerospace etc., Bulk of its revenues were derived from tractor and farm equipment (~30%) and power generator (~23%) segments in FY2022. It has gradually been reducing share of revenues from PV segment to 21.3% in FY2022 from 28.3% in FY2021 and is expected to further reduce share to less than 10% by end of FY2023. Going forward, the diversified segment profile along with SAC's established relationship with major OEMs and 75-100% share of business in served OEMs in automotive segment are expected to support its revenues.

**Healthy financial profile** - SAC's financial profile is strong with operating margins in excess of 20% in the last 5 years and healthy coverage and leverage metrics (Total debt to OPBDITA of 1.4 times, total outside liability to tangible networth of 0.9 times and DSCR of 2.2 times in FY2022). While its revenues and earnings were affected during FY2020 and FY2021 due to Covid-led factors, there was a strong turnaround in FY2022 supported by a healthy recovery in end-user demand. For 5M FY2023, SAC has generated revenue of over Rs. 150 crore and is expected to clock ~Rs. 350 crore revenues for FY2023. The working capital intensity, is however moderate, given the long receivable cycle.

### Credit challenges

**Moderate scale of operations and vulnerability of revenues and earnings to demand slowdown in end-user industries** - While SAC's revenue grew by 40.5% YoY in FY2022, the overall scale of operations remains moderate with revenues of Rs. 321.0 crore. Camshaft is a critical component that is necessary for the functioning of an engine and hence any cyclicity in demand from end-user industries has an impact on its revenues. The demand scenario is impacted by the general economic or industry conditions in both domestic and exports markets.

**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 leading to client concentration challenges. Further, SAC faces a potential threat from the development of alternative vehicle architectures like electric vehicles, which do not use camshafts. However, the same is mitigated by the fact that SAC has been diversifying its revenue mix away from PV segments as camshafts have diversified end-use applications including in the non-automotive sector, and the presence of long-standing relationship with reputed client base.

**Susceptibility of earnings to commodity inflation** - Key raw materials used include mild steel scrap and pig iron and earnings are susceptible to fluctuations in prices of these commodities though, the company has pass through clauses with OEMs to pass on any RM price volatility, albeit with a lag of three to six months. SAC's operating and net profit margin contracted by ~200 bps due to elevated commodity prices. ICRA expects the margins to improve in FY2023 with softened commodity prices.

### Liquidity position: Adequate

Liquidity is adequate. SAC has buffer against working capital limits of Rs. 29.1 crore as on June 30, 2022 and is expected to generate retained cash flows of Rs. 35-40 crore in FY2023. It is also expected to draw down Rs. 30 crore term loan and increase working capital sanction to Rs. 75 crore. Against these sources of funding, it has capex obligations of ~Rs. 40 crore and repayment obligations of ~Rs. 17 crore in FY2023.

## Rating sensitivities

**Positive factors** – An upward trigger in rating could arise from SAC’s ability to achieve sustained and material 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 2 times 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 suppliers</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on standalone financial profile of the company

## 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.

## Key financial indicators (audited)

SAC (Standalone)	FY2021	FY2022
Operating income	228.4	321.0
PAT	21.4	34.5
OPBDIT/OI	23.0%	21.0%
PAT/OI	9.4%	10.7%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	1.9	1.4
Interest coverage (times)	7.6	10.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Oct 12, 2022	Aug 05, 2021	Oct 23, 2020	Jun 01, 2020
1 Fund based - CC	Long-term	30.00	20.9	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
2 Fund based facilities	Short Term	20.00	-	[ICRA]A2+	-	-	-	-
3 Fund Based facilities	Proposed Long Term/Short Term	25.00	-	[ICRA]A(Stable)/[ICRA]A2+	-	-	-	-
4 Fund – Based Term Loan	Long Term	55.0	25.0	[ICRA]A(Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
5 Unallocated	Short Term	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term– Fund Based/CC	Simple
Short Term Fund Based	Simple
Term Loan	Simple
Proposed Fund Based	Simple

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 analysing 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 are available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure I: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund based/CC	NA	NA	NA	30.00	[ICRA]A(Stable)
NA	Short Term – Fund Based	NA	NA	NA	20.00	[ICRA]A2+
NA	Proposed Fund Based Facilities	NA	NA	NA	25.00	[ICRA]A(Stable)/ [ICRA]A2+
NA	Proposed Term Loan	NA	NA	NA	32.49	[ICRA]A(Stable)
NA	Term Loan - 1	FY2019	NA	FY2025	3.78	[ICRA]A(Stable)
NA	Term Loan - 2	FY2019	NA	FY2025	10.24	[ICRA]A(Stable)
NA	Term Loan - 3	FY2019	NA	FY2025	8.49	[ICRA]A(Stable)

*Source: Company*

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis: Not Applicable**

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