Rating Rationale

May 09, 2023 | Mumbai

Sundram Fasteners Limited

Rating reaffirmed at 'CRISIL A1+'

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Rating Action

Rs.25 Crore Short Term Debt	**CRISIL A1+ (Reaffirmed)**
Rs.100 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed itsÂ 'CRISIL A1+'Â rating on the short-term debt and commercial paper programme of Sundram Fasteners Limited (SFL).

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SFLâ€™s consolidated revenues grew by ~16% in fiscal 2023, supported by strong demand from domestic original equipment manufacturers (OEMs), steady aftermarket and export sales. This comes after a 35% growth in revenues in fiscal 2022. SFLâ€™s operating profitability moderated to ~15% in fiscal 2023 compared to 16.7% in fiscal 2022 mainly due to higher cost of raw material, which are being passed on with a lag, higher power costs, and moderation in performance of its Chinese subsidiary.

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The company has also received a long-term contract for export of sub-assemblies for electric vehicle (EV) aggregating USD 250 million from one major automobile OEM based in the US. Increasing share of contribution from new products, as well as higher supplies to EV OEMs, and non-automotive customers (currently ~30% of revenues), besides steady demand from existing and export customers is expected to lead to 8-10% growth over the medium term for SFL, while operating profitability is expected to settle at ~15%-16%.

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The company is expected to incur capex of Rs.1000 crores between fiscals 2023-2025, to add capacity across existing business lines, for wind energy equipment related fasteners and the new US based EV OEM in the US. SFL is expected to generate accruals of over Rs.500 crores annually, which will suffice to meet annual debt obligations of ~Rs.100-168 crore and majority of capex needs. Debt metrics which are already at robust levels, with gearing at less than 0.3 times, and interest cover ratio of over 22 times, will continue to remain at comfortable levels over the medium term, in the absence of material debt addition.

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The ratings continue to reflect SFL's leading market position in the fasteners industry, revenue diversity, healthy operating efficiency, and strong financial risk profile. These rating strengths are partially offset by working capital-intensive operations, and moderate profitability of overseas subsidiaries.

Analytical Approach

For arriving at its rating, CRISIL has combined the business and financial risk profiles of SFL and its subsidiaries held directly or indirectly, as the entities share a common management, and operate with significant operational and financial linkages.

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Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

Leading market position in the fasteners segment, diverse product portfolio, and wide geographical reach: SFL continue to dominate the domestic fasteners market accounting for a sizeable market share. Revenue mix is healthy, with domestic sales (including OEMs and aftermarket) accounting for ~70% in fiscal 2023, and exports bringing in ~30% (including subsidiary operations). Product portfolio broadly comprises fasteners, sintered metal products, cold extruded parts, radiator caps, and automotive pumps and assemblies. Established relationship across commercial vehicles (CVs), passenger vehicles (PVs), tractors and two-wheeler OEMsâ€™ lends stability to revenues. Supplies to CV and PV OEMs account for ~65-70% of standalone OE sales, with the balance being contributed by tractor, two-wheeler and wind energy equipment manufacturers. SFL is also gradually diversifying its customer base by enhancing manufacturing of industrial fasteners, including for wind equipment, to reduce dependence on the cyclical automotive sector.

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Healthy operating efficiency:

SFL has maintained strong focus on processes, quality improvement, and cost reduction, apart from continuously improving productivity. Implementation of industry-wide best practices, such as Total Quality Management, other internal automation measures, and improve operating efficiencies help products meet the rigorous standards of the clients. Having manufacturing units abroad, and established supply chain logistics enables the company to cater to customers on 'just-in-time' basis. Operating margins have averaged between 16% to 18% over fiscals 2018-2021, and have moderated to ~15% in fiscal 2023, as costs have risen sharply. Additionally, the shift in product mix towards more profitable products like hubs & shafts and EV components, compared with traditional fasteners, and improving contribution from subsidiaries is expected to keep operating profitability at ~15% to 16% over the medium term.

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Strong financial risk profile:

SFLâ€™s financial risk profile has remained strong supported by healthy cash accrual and prudent funding of capex, even as working capital intensity remains high. Net-worth is expected to surpass Rs 3000 cr in fiscal

2023 with gearing of less than 0.3 times, and healthy interest coverage ratio of over 22 times.
Capex of ~Rs.300 cr in fiscal 2023 was funded mainly through internal accruals. SFL is expected to incur capex of ~Rs.750 crores in fiscals 2024 and 2025 as the company plans to invest more on new product development especially on the EV technology side, add capacity across existing lines, and for wind equipment fasteners as well. Some of these products are expected to further improve diversity in revenues and lend more stability to profitability. With healthy annual cash accruals of over Rs.500 crores, capex needs are expected to be largely funded from accruals, while incremental debt is expected on account of incremental working capital needs. Debt metrics will hence continue to remain at comfortable levels. Any sizeable debt funded expansion plan, materially impacting debt metrics, will however, be a monitorable.
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Weaknesses:
Working capital-intensive operations
Â Due to the large number and different sizes of products manufactured, inventory levels are higher, relative to its peers in the automotive component space. Besides, raw material imports and increasing export (longer lead time) also contribute to high working capital needs. Consequently, gross current assets expected to be between 130-140 days as on March 31, 2023 and are expected to continue at the same levels over the medium term.
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Modest, albeit improving, performance of subsidiaries:
Even as SFL's standalone performance had been continuously improving since fiscal 2019 except for the intermittent impact on account of economic slowdown and COVID pandemic, its overall performance was partially tempered by modest contribution of its subsidiaries, especially those overseas. The subsidiaries expected to contribute 12-13% to the consolidated revenues in fiscal 2023; however, the contribution to the consolidated profitability is expected be at ~6-7%.
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Performance in the Chinese subsidiary was under pressure in the first six months of the fiscal 2023 due to severe covid lockdown in its key operating areas. However, with the lifting of the covid measures in China from the third quarter, operations have ramped up and are expected to witness strong recovery in fiscal 2024. Performance of the UK subsidiary, Cramlington Precision Forge Limited, is expected to be stable with strong demand from the automobile segment, especially CVs. Performance in TVS Upasana, the domestic subsidiary is also expected to be stable in fiscal 2023, and improve further in fiscal 2024. Contribution from the other smaller subsidiaries is expected to negligible in fiscal 2023.

Liquidity: Strong
SFL has strong liquidity with accruals of over Rs 500 crore over the medium term which shall be sufficient to meet repayment obligations of ~Rs 100-168 crore through fiscal 2025. Major portion of the capex plans in the next two fiscal (2024-25) is expected to be met through internal accruals. Â The company also has adequate cushion in bank limits of around Rs 1800 crore, utilized to the tune of ~15%, on an average over the 12 months ended March 31, 2023. The companyâ€™s cash surpluses were moderate ranging from Rs.70-100 crores.

Rating Sensitivity factors
DownwardÂ Factors
- Decline in revenues on a sustained basis along with deterioration in operating profitability to below 11-12%, also impacting cash generation
- Large debt-funded capex/acquisition or steep elongation in working capital cycle, impacting the financial risk profile and debt metrics

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ESG Profile of SFL:
CRISIL Ratings believes that Sundram Fasteners Limitedâ€™s (SFL) Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.
The auto component sector has a moderate impact on the environment owing to moderate emissions, water consumption and waste generation. The sectorâ€™s social impact is also moderate considering the impact of operational activities on the companyâ€™s own employees.
The company is focusing on mitigating environmental and social risks.
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Key ESG highlights:Â
- The Company has a continuous focus on conservation of energy. Targets in terms of sourcing mix and cost are set every year and action plans are drawn.
- Share of energy from renewal sources was about 40% in FY22 which was comparatively better than the industry average. Further addition to solar power roof top capacity is planned in the financial year 2022-2023.
- During the year, no fatal accidents were observed by the company which is a representation of companyâ€™s focus on employee health and safety.
- The company encourages local sourcing wherever possible and procures ~90% of the raw materials from local suppliers
- The governance structure is characterised by 50% of its board comprising independent directors. Position of the chairman and CEO are split. It has a committee at the Board level to address investor grievances and also put out extensive disclosures.

There is growing importance of ESG among investors and lenders. The commitment of SFL to ESG principles will play a key role in enhancing stakeholder confidence, given high share of market borrowing in its overall debt and access to both domestic and foreign capital markets

About the Company
SFL led by Mr Suresh Krishna, is a leading automotive component supplier with seven manufacturing facilities in Tamil Nadu, one in Puducherry, one at Sri City in Andhra Pradesh and one each at Medak in Telangana and Pantnagar in Uttarakhand. The company has key operating subsidiaries in India, in China and the UK. The companyâ€™s product range comprises fasteners, power train components, sintered metal products, iron powder, cold extruded parts, radiator caps, water pumps, oil pumps and wind energy components. Key export customers includeÂ USA, Germany,Â UK, Brazil, Italy and France.Â
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As on March 31, 2023, promoter and promoter held investment companies held 48.51% stake in SFL,Â mutual funds 13.69%, insurance companies 4.82%, foreign portfolio investors 11.50%, with the balance held by public and others.

Key Financial Indicators (consolidated)

As on / for the period ended March 31	Â	2023	2022
Revenue	Rs crore	5663	4902
PAT	Rs crore	500	462
PAT margin	%	8.8	9.4
Adjusted debt/adjusted net worth	Times	0.26	0.29
Interest coverage	Times	22.47	29.26

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Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	ComplexityÂ levels	Rating assigned with outlook
NA	Short Term Debt	NA	NA	7-365 days	100	Simple	CRISIL A1+
NA	Commercial Paper	NA	NA	7-365 days	25	Simple	CRISIL A1+

Annexure â€“ List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Sundram Fasteners Investments Ltd, Chennai	Full	Subsidiary; business linkages and common management
TVS Upasana Ltd, Chennai	Full	Subsidiary; business linkages and common management
Sundram Non-Conventional Energy Systems Ltd, Chennai	Full	Subsidiary; business linkages and common management
TVS Next Ltd	Full	Subsidiary; business linkages and common management
TVS Engineering Limited	Full	Subsidiary; business linkages and common management
Cramlington Precision Forge Ltd, Northumberland, United Kingdom	Full	Subsidiary; business linkages and common management
Sundram Fasteners (Zhejiang) Ltd, Zhejiang Peoples Republic of China	Full	Subsidiary; business linkages and common management
Sundram International Inc, USA	Full	Subsidiary; business linkages and common management
TVS Next Inc. (subsidiary of TVS Next Ltd)	Full	Subsidiary; business linkages and common management
Sundram International Ltd, United Kingdom	Full	Subsidiary; business linkages and common management
Sunfast TVS Limited	Full	Subsidiary; business linkages and common management

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	100.0	CRISIL A1+	Â	--	10-05-22	CRISIL A1+	28-05-21	CRISIL A1+	05-05-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	Â	--	Â	--	Â	--	22-04-20	CRISIL A1+	--
Short Term Debt	ST	25.0	CRISIL A1+	Â	--	10-05-22	CRISIL A1+	28-05-21	CRISIL A1+	05-05-20	CRISIL A1+	CRISIL A1+
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All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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