July 29, 2022

SOGEFI Engine Systems India 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– Interchangeable (CC)^	(15.00)	(15.00)	[ICRA]A+ reaffirmed; outlook revised to Stable from Positive
Short term – Fund based	30.00	30.00	[ICRA]A1+; reaffirmed
Short term – Interchangeable (LC)^	(5.00)	(5.00)	[ICRA]A1+; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I; ^interchangeable with short-term fund-based facilities*

Rationale

The revision in outlook on the long-term rating of SOGEFI Engine Systems India Private Limited (Sogefi/the company) factors in the moderation of liquidity position following sizeable dividend pay-out of Rs. 59.5 crore each in FY2021 and FY2022 (provisional) and ICRA's expectation that the same will remain at similar levels, going forward. The ratings continue to take comfort from the strong financial profile marked by stable revenues, healthy operating margins, and strong capital structure and coverage indicators with negligible debt as on March 31, 2022. In the absence of large capital expenditure (capex) plans, ICRA expects Sogefi to remain debt-free over the medium term. The ratings also derive strength from its diversification of revenues across filtration, and air and cooling (A&C) segments catering to two-wheeler (2W) and four-wheeler (4W) automobile markets. ICRA notes the company's strong parentage as part of the Sogefi Group, a leading player in the global auto-ancillary industry. Further, Sogefi enjoys established relationships with its leading original equipment manufacturer (OEMs) customers and commands a healthy market share in the domestic 2W and 4W filter markets.

The rating strengths are partially offset by the moderate scale of operations over other players at a similar rating level, inherent cyclicality in the automotive industry, stiff competition from entrenched players and exposure to forex volatility risk because of sizable imports (21% of raw material was imported during FY2022). Moreover, impending electrification risk in the automobile industry exposes the company's product mix to the risk of obsolescence over the long-term. Nevertheless, replacement demand of A&C components for conventional vehicles provides some support. The impact of sizable dividend outflows in the future on the company's liquidity position will be a key monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage as part of the Sogefi Group – Started as a partnership firm in July 1971, the company has been manufacturing filters for 2Ws and 4Ws for nearly five decades. In FY2008, it entered into a joint venture with the Sogefi Group, which is specialised in manufacturing filtration systems, cooling systems and flexible suspension components and is a leading global supplier of automotive parts. In August 2018, the Indian promoter group sold its 30% stake in the company to the Sogefi Group, making Sogefi a 100% subsidiary of the Group.

Diversified revenues from filtration and A&C segments – In FY2022, the company derived 76% of its revenues from the filtration segment, which manufactures air, oil and diesel filters for the automobile industry. The remaining 23% is derived from the A&C segment, which manufactures plastic moulded manifolds, thermostat housing and ducts, coolant pump modules, air-induction systems, etc. While the A&C segment caters primarily to the 4W market, the filtration segment's revenues are derived from both 2W and 4W markets.

Established relationships with reputed clientele – The company's customers include leading 2W and 4W OEMs, such as Bajaj Auto Ltd., Hero Moto Corp Ltd., TVS Motors Ltd., Mahindra and Mahindra Ltd. and Maruti Suzuki India Ltd., among others. It has been associated with most of these customers for more than two decades and receives incremental orders from them. The company also provides components to Fiat for its automotive engine manufacturing, which is then sold to Tata and Morris Garages (MG). The company also cater directly to Tata Motors for components such as manifold, thermostat and water pumps for largely all its models. Moreover, its revenues remain diversified with no single customer driving more than 25% of its revenues.

Healthy financial profile – The company's financial profile remains strong with heathy revenue growth and operating margins in FY2022 on the back of growth in demand volume from its customers, particularly from 4W OEM customers, including Mahindra, Tata and Maruti Suzuki. The company's revenue grew by 19.7% in FY2022 to Rs. 604.0 crore from Rs. 504.4 crore in FY2021. Moreover, its strong cash accrual and nil debt in FY2022 have resulted in strong capital structure and coverage indicators.

Credit challenges

Exposure to cyclicality in the automobile industry and threat from alternative automobile architecture, namely EVs – The company is exposed to the inherent cyclicality in the automobile industry. However, higher replacement demand for filters in 2Ws and 4Ws mitigates the demand volatility risk to an extent. The company also faces a moderate risk in the long run with increase in market share for 2W electric vehicles (EV), which do not require filters and manifolds in their architecture. However, with nearly 50% of the company's revenue from the private vehicle (PV) segment, some comfort is provided by the medium-term expectation of IC engines continuing to dominate the domestic 2W market. Moreover, the company is already developing products for EVs. The company expects to venture into new product development and revenue visibility from the EV segment in FY2024 as per customer requirements.

Exposure to fluctuations in raw material prices and foreign exchange rates – As raw material cost constitutes around 65% of the company's operating costs, the margins are susceptible to volatilities in raw material prices. With imported raw materials constituting around 21% of the raw material cost, the margins are exposed to foreign exchange volatilities. However, the established relationship with its customers provides the company with some pricing flexibility to pass on any steep fluctuations in raw material prices.

Moderate level of competition from other filter and manifold manufacturers – The company faces stiff competition from other established players in the filtration and A&C segments. Moreover, continuous investment in research and development (R&D) activities enhances the technological capabilities and enables product differentiation to some extent.

Sizable dividend outflow in FY2021 and FY2022 impacting the liquidity position of the company – The company had a sizable dividend outflow of Rs. 59.5 crore each in FY2021 and FY2022 (provisional) impacting its cash and liquid investment balances to a certain extent. The company's annual dividend pay-out is expected to remain similar to FY2022 levels going forward as well. The impact of such sizable dividend outflows in the future on the company's liquidity position will be a key monitorable.

Liquidity position: Adequate

Sogefi's liquidity position remains adequate with sufficient undrawn working capital limits, which have not been utilised in the last 12 months ending March 31, 2022, and no long-term repayment obligation. However, the company's liquidity position reduced with cash balance of Rs. 23.1 crore as on March 31, 2022 from Rs. 56.6 crore as on March 31, 2021 on account of sizable dividend pay-out of Rs 59.5 crore and capex of Rs. 30.5 crore in FY2022. ICRA expects the dividend pay-out to remain at similar levels, going forward. Further, Sogefi is expected to incur capex of ~Rs. 25.0 crore per annum, which is expected to be funded entirely by internal accruals. ICRA expects Sogefi to remain debt free over the medium term. The impact of the company's future capex plan and sizable dividend outflow on its liquidity position will be a key monitorable.

Rating sensitivities

Positive factors – ICRA may upgrade the company's rating if there is a significant increase in the scale of operations with diversification of products leading to an improvement in Sogefi's profitability along with healthy cash flows and liquidity position on a sustained basis.

Negative factors – Negative pressure on the ratings may arise if there is a sustained decline in the sales volumes and/or realisations adversely impacting its profitability and return indicators. Specific credit metric that ICRA will monitor for rating downgrade will be Total Debt/OPDITA weakening to greater than 1.5 times on a sustained basis. The ratings also may be downgraded if the company's liquidity profile weakens because of sizable dividend outflow or large capex outgo.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Sogefi.

Note (for analyst reference only):

About the company

A part of the Italian Sogefi Group, Sogefi manufactures air, oil and fuel filters for automobile engines, air intake manifolds and engine-cooling systems. It was started as a partnership firm in July 1971 as M. N. Ramarao & Company. In November 2008, a joint venture was formed with Filtrauto Societe Anonyme, a subsidiary of Sogefi SpA, and the company was renamed as SOGEFI MNR Filtration India Private Limited in April 2009. In April 2014, the company was merged with Systemes Moteurs India Pvt. Ltd. to form SOGEFI-MNR Engine Systems India Private Limited. Subsequently, it was again renamed as Sogefi Engine Systems India Private Limited. In August 2018, its promoter group who held 30% stake in the company sold their entire stake to the Sogefi Group, making Sogefi a 100% subsidiary. The company has a manufacturing unit each in Bangalore, Pune and Gurgaon. It also has an R&D centre as a part of the Bangalore manufacturing unit.

Group Profile

The Sogefi Group is a leading global supplier of original parts for the automotive industry. Founded in 1980, Sogefi is now present in 18 countries with 37 production plants. The Group's holding company, Sogefi SpA, has 37 consolidated companies, and subsidiaries in three business units—viz., the air and cooling business unit, filtration business unit and suspensions business unit. In 2011, Sogefi had bought the French car components group, Systèmes Moteurs, which is a leading global manufacturer of air management and engine cooling systems.

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022*
Operating income	504.4	604.0
PAT	48.4	40.6
OPBDIT/OI	16.4%	15.9%
PAT/OI	9.6%	6.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	-	-

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2020 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 29, 2022	Apr 12, 2021	-	Mar 19, 2020
1	**Interchangeable (CC)^**	Long term	(15.0)	--	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Positive)**	-	**[ICRA]A+ (Stable)**
2	**Fund Based**	Short term	30.0	--	**[ICRA]A1+**	**[ICRA]A1+**	-	**[ICRA]A1+**
3	**Interchangeable (LC- Sub Limit of WCDL)^**	Short term	(5.0)	--	**[ICRA]A1+**	**[ICRA]A1+**	-	**[ICRA]A1+**

^The interchangeable limits are sub-limits of the short-term fund based limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Interchangeable (CC)	Simple
Fund based	Simple
Interchangeable (LC- Sub Limit of WCDL)	Very 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

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Interchangeable (CC)**	NA	NA	NA	(15.0)	[ICRA]A+(Stable)
NA	**Fund based**	NA	NA	NA	30.0	[ICRA]A1+
NA	**Interchangeable (LC-Sub Limit of WCDL)**	NA	NA	NA	(5.0)	[ICRA]A1+

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Harshit Sureka
+91 80 4332 6418
faizan.ahmed@icraindia.com

Mythri Macherala
+91 80 4332 6407
mythri.macherala@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches