April 10, 2023(Revised)

Sandfits Foundries Private Limited: Long-term rating upgraded and short-term rating reaffirmed; outlook revised to Stable; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based TL	10.70	20.80	[ICRA]A upgraded from [ICRA] A-; Assigned for enhanced amount; outlook revised to Stable from Positive
Long-term – Fund-based CC	25.00	30.00	[ICRA]A upgraded from [ICRA] A-; Assigned for enhanced amount; outlook revised to Stable from Positive
Short-term – Non-fund based	1.50	1.50	[ICRA]A2+; reaffirmed
Short-term – Fund-based	15.00	15.00	[ICRA]A2+; reaffirmed
Long-term / short-term – Unallocated	12.80	2.70	[ICRA]A upgraded from [ICRA] A-; outlook revised to Stable from Positive/[ICRA] A2+ reaffirmed
Total	**65.00**	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the bank lines of Sandfits Foundries Private Limited (SFPL) reflects the strong performance of the company in FY2023e and expectation of sustained improvement in its revenue, accruals, and debt protection metrics, on the back of favourable demand from end user segments. The ratings remain supported by the promoter's extensive experience in the foundry business and SFPL's healthy operational profile, characterised by its diverse presence across end-user industries like passenger vehicles (PV), medium and heavy commercial vehicles (M&HCV), tractors/farm, mining and construction equipment (MCE), textiles and engineering. The ratings also consider SFPL's reputed clientele and long-standing relationships with its customers, which resulted in a low churn rate and repeat order inflow over the years. SFPL's revenues stood at Rs. 421.6 crore in 11M FY2023 (up 51% YoY), with operating margins of ~17%. SFPL's debt protection metrics, marked by Total Debt/OPBDITA, remain comfortable at 0.6 times during 11M FY2023.

The ratings, however, remain constrained by the vulnerability of its earnings to the cyclicality in end-user industries, especially commercial vehicles, and tractors. The ratings also factor in limited pricing power with few OEMs by virtue of high competition operating in the highly fragmented foundry industry and sensitivity of profit margins to the volatility in raw material prices.

The Stable outlook on the long-term rating of SFPL reflects the expected improvement in revenue, accruals, and debt protection metrics of the company, supported by its established position and favourable demand for its products from end user segments.

Key rating drivers and their description

Credit strengths

Strong operational profile with diversified presence across industries with a reputed clientele – SFPL's business risk profile is strong, supported by the promoter's vast experience and the company's long-standing presence in the castings industry, supplying components to diverse end-user industries, namely PVs (22% of the revenues during 11M FY2023), M&HCVs (17%), tractors (20%), MCEs (26%), textiles (3%) and engineering (2%), among others (10%). This insulates its earnings against any exogenous shocks or demand slowdown in a specific industry. In 11M FY2023 the company's revenues and volumes witnessed an improvement by 51% and 26% (annualised), respectively, on account of increased demand in the economy post-Covid. SFPL, witnessed a major boost in earthmover and auto sector as they had higher share of revenues and profits from these segments. The demand estimates for FY2024 for most of the end-user segments are favourable and shall accordingly support SFPL's revenues and earnings. SFPL also has a reputed client profile with whom it enjoys established relationships, resulting in repeat orders over the years.

Significant experience of promoters in the foundry industry – SFPL, incorporated in 1962, has a long track record of manufacturing grey iron and SG iron castings that find applications in diverse industries. At present, SFPL is managed by Mr. R. Saravanan, who has over three decades of experience in the castings business and is well supported by a qualified and experienced management team. The promoter's long-standing experience supported by a strong management team continue to support SFPL's sustenance of business with existing customers and new deal wins from both the domestic and export markets.

Financial profile characterised by healthy profit margins and strong debt metrics – SFPL's operating margins improved to 17.6% during 11M FY2023. However, the margins improved in the current fiscal with softening input prices, higher realisations and improved operational efficiencies (better yield, captive power generation from windmills and new solar power plant and better cost-control measures). SFPL's capitalisation and coverage indicators remain strong with low debt levels and stable accruals, with a gearing of 0.2 times, total debt/OPBITDA of 0.6 times as on February 28, 2023, interest coverage of 27.0 times and DSCR of 7.4 times for 11M FY2023. ICRA expects the debt coverage metrics to remain comfortable.

Credit challenges

Vulnerability of earnings to the cyclicality in end-user industries – Although the scale of operations improved in 11M FY2023 and is expected further improve in FY2024, the revenues are vulnerable to the cyclicality of its end user industries like Auto Segment (both PV and M&HCV), Tractor Segment and Earthmover Segment, wherein any fall in the volumes of the major customers may impact SFPL's revenue and vice versa.

Susceptibility of margins to fluctuations in raw material costs and competitive pressures – SFPL's margins are susceptible to fluctuations in the prices of raw materials, primarily pig iron and scrap steel. Although the company has demonstrated the ability to pass on the rise in raw material costs, it is usually done with a lag, impacting profits temporarily due to price rises. Further, the margins are affected by pricing pressures, given the fragmented nature of the domestic foundry industry resulting in competitive pressures.

Liquidity position: Adequate

SFPL's liquidity is adequate, with estimated net cash accruals of over Rs. 50.0 crore in FY2023, along with adequate cash and bank balances and liquid investments of Rs. 13.1 crore as on February 28, 2023. In relation to these sources of cash, SFPL has capex plans of ~Rs. 70.0 crore in the near term (to be funded by Rs. 40.0 crore of long-term debt and balance through internal accruals) and debt repayments of ~Rs. 8.0 crore in FY2023 and ~Rs. 19.0 crore in FY2024. Further, the company had unused working capital facilities of Rs. 13.9 crore as on February 28, 2023. Overall, ICRA expects SFPL to be able to meet its near-term commitments through internal as well as external sources of cash.

Rating sensitivities

Positive factors – An upward trigger in the ratings could arise from SFPL's ability to achieve healthy revenue growth and earnings, on a sustained basis, while maintaining its debt capitalisation and coverage metrics.

Negative factors – Pressure on SFPL's ratings could arise, if the debt levels rise with increase in working capital requirements, or on account of any large capex, resulting in deterioration of total debt/OPBITDA over 2.0 times, on a sustained basis. Any sharp decline in the top line, on a sustained basis, could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Sandfits Foundries Private Limited, founded by Mr. A. V. Varadharajan, was established in 1962 before being converted into a private limited company in 1993. The company is primarily involved in the manufacture of grey iron and SG iron castings that find application in automotive (38%), tractors (20%), earthmoving equipment (26%), textiles (4%), and heavy engineering (2%) industries. The company is closely held by Mr. R. Saravanan and family, currently, and it operates with four units at Coimbatore, Tamil Nadu, with an installed production capacity of 45,000 MT per annum. The company also has captive use windmill and solar power plant with a production capacity of 6.15 MW and 5 MW respectively.

Key financial indicators (audited)

Sandfits Foundries Private Limited	FY2022	11M FY2023*
Operating income	310.4	422.9
PAT	16.0	49.9
OPBDIT/OI	10.6%	17.8%
PAT/OI	5.2%	11.8%
Total outside liabilities/Tangible net worth (times)	1.4	1.2
Total debt/OPBDIT (times)	1.2	0.6
Interest coverage (times)	12.0	27.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore; * Provisional Financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 10, 2023	Oct 31, 2022	Jul 12, 2021	-
1	Long Term - Fund Based TL	Long-term	20.80	20.80	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-
2	Long Term - Fund Based/ CC	Long-term	30.00	16.10	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-
3	Short Term - Non-Fund Based	Short Term	1.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4	Short Term - Fund Based	Short Term	15.00	15.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-

5	Long Term / Short Term - Unallocated	Long-term/ Short Term	2.70	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - fund based TL	Simple
Long Term - fund based - CC	Simple
Short Term - non fund Based	Very Simple
Short Term - fund based	Very Simple
Long Term / Short Term – 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 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Nov 2018	7.89%	Aug 2023	1.06	[ICRA]A(Stable)
NA	Term Loan	Mar 2020	7.89%	Sep 2025	2.72	[ICRA]A(Stable)
NA	Term Loan	Nov 2020	9.15%	Dec 2024	3.02	[ICRA]A(Stable)
NA	Term Loan	-	8.10%	-	14.00	[ICRA]A(Stable)
NA	Cash Credit	-	-	-	30.00	[ICRA]A(Stable)
NA	Letter of Credit	-	-	-	1.50	[ICRA]A2+
NA	WCDL	Nov 2020	7.15%	-	15.00	[ICRA]A2+
NA	Long Term / Short Term – Unallocated	NA	NA	NA	2.70	[ICRA]A(Stable)/[ICRA]A2+

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

Corrigendum

The Operating Income for 11M FY2023 (provisional) has been corrected in the Key Financial Indicators table and the complexity level for Long Term / Short Term – unallocated limits has been changed to Not Applicable in the Complexity level of the rated instruments table.

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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