

April 23, 2024

Sigma Electric Manufacturing Corporation Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term - Fund based/Non-Fund Based	157.5	212.5	[ICRA]A-(Stable)/[ICRA]A2+; Reaffirmed/Assigned for enhanced amount
Total	157.5	212.5	

*Instrument details are provided in Annexure-I

Rationale

The ratings action favourably factors in the established operations of Sigma Electric Manufacturing Corporation Private Limited (Sigma) in the electrical castings industry for over 20 years. The ratings further consider Sigma's diversified product portfolio servicing the electrical fittings segment, and the power transmission and distribution segment. The company also has customised products for residential and commercial usages, instrumentation and home appliance industries. Sigma derives the major portion of its revenues from exports to its US-based Group company, Sigma Electric Manufacturing Corporation, which manages its marketing and distribution in that country. The ratings are also supported by its reputed client profile (mostly in the US), which includes large home improvement companies, appliance manufacturers, engineering and power transmission companies among others. In the current fiscal, the revenues are estimated to remain almost flat with an expected increase of 1-2%. The operating margins, nonetheless, are likely to remain comfortable at 14-15%.

The capital structure remains leveraged on account of interest bearing compulsory convertible debentures (CCD), which were infused in FY2017, following the acquisition by Argand Partners (New York-based private equity fund) from the Goldman Sachs Partner Fund. The ratings are constrained by the significant interest outflow that impacts the net margins and fund flow from operations, leading to a moderate interest coverage ratio. However, ICRA draws comfort from the option of deferment of interest payment on CCDs to the parent entity and subordination of such outflows to bank repayments. The working capital remains moderately high due to the extended receivable cycle (120-130 days from the parent entity) to an extent, offset by high payable cycle with the usage of vendor bill discounting. Further, the company remains vulnerable to commodity prices, although it can pass on the increase in raw material costs with a lag. Sigma is also vulnerable to forex movements as 90% of its revenues is generated from exports to the parent entity that are impacted by significant mark-to-market gains or losses.

The Stable outlook on [ICRA]A- rating reflects ICRA's opinion that the company will continue to leverage on its reputed clientele and the profitability metrics are expected to remain comfortable over the medium term.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile – The company reported a modest revenue growth of ~6% in FY2023 on the back of slow order flow. However, the operating margins of the entity have been largely stable at 13-15% over the past few years. ICRA expects muted growth in the operating income and the operating margins are likely to remain at similar levels in FY2024. However, the net margins remain low owing to a significant interest outgo towards CCDs. The company's low gearing and modest coverage indicators provide comfort.

Established position in the castings industry and a strong market position – Incorporated in 1996, the company manufactures castings for electrical components and fittings used in commercial and residential projects as well as for power transmission and distribution. It also caters to custom business requirements for industrial equipment, home appliances and

instrumentation. It is a market leader in the US across low voltage electrical product segments, including weatherproof boxes (estimated ~75% shares of die-cast weatherproof boxes), power transmission and distribution cut-outs, and connectors (estimated ~80% share in cutouts).

Diversified product portfolio – The company is a large integrated player in the US, with a range of castings in all non-ferrous metals in addition to iron and steel. The core electrical segment comprises ~80% of the consolidated revenues of the entity and supplies products such as fitting, connectors, couplings, weatherproof box, flip covers, lamp holders, lamp holder covers and lighting kits, connectors and fittings, among others, to the retail electrical segment, private labels and the power transmission and distribution sector. The custom products cater to the indigenous requirements of the industrial segment, instrumentation and appliance manufacturing segments.

Reputed client base – The Indian entity derives ~90% of its revenues from exports to its US arm, which carries out end-customer sales. Sigma has a reputed customer base that comprises large engineering companies, home improvement stores, home appliance companies and power transmission entities. Its top-three customers contributed 34% to its revenue in FY2023 and 9M FY2024. The concentration risk is mitigated because of Sigma's established relationships with its customers and the large size of these corporations.

Credit challenges

Leveraged capital structure due to interest-bearing CCDs; mitigated by interest payment subordination – The major portion of Sigma's total debt (89% of the 9M FY2024 debt) pertains to CCDs and External Commercial Borrowings (ECBs) from its parent entity. The outstanding debt component of CCDs stood at Rs. 424.9 crore whereas ECBs stood at Rs. 93.3 crore as on December 31, 2023. ICRA draws comfort from the option of deferment of interest payment on CCDs to the parent entity by agreement between the two entities and subordination of such outflows to domestic bank repayments.

High working capital cycle – The working capital cycle of the company remains high as it exports ~90% of its products to its sister concern in the US at an extended credit period of 120-130 days. The creditors consist of raw material imports and domestic suppliers that are paid in three to four months, depending on the supplier and the country of import. The company maintains an inventory of two to three months, which primarily constitutes die castings manufactured by Sigma, as per clients' specifications.

Vulnerable to changes in raw material prices and forex movements – The entity derives ~90% of its revenues from exports to its Group entity in the US, which exposes Sigma to forex movements and significant mark-to-market gains or losses that impact its net profitability. The company is vulnerable to commodity prices, although it can pass on the same with a lag.

Liquidity position: Adequate

The liquidity profile remains adequate, supported by Sigma's comfortable margins and healthy cash flow from operations of Rs. 82 crore in 9M FY2024. The cash and liquid investment balance stood at Rs. 46 crore as on December 31, 2023. The company has modest capex plans, which will be funded through internal accruals. ICRA also draws comfort from the option of deferment of interest payment on CCDs to its parent entity by agreement and subordination of the same to bank repayments.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a significant expansion in Sigma's scale of operations, while maintaining its profit margin, and improvement in the working capital cycle, resulting in better debt coverage metrics and liquidity position on a sustained basis. A specific credit metric for ratings upgrade includes Total Debt/OPBITDA below 2.0 times, on a sustained basis.

Negative factors – The ratings may be downgraded if there is pressure on the company's revenues and profitability or if there is an elongation in its working capital cycle on a sustained basis. Further, the ratings could be impacted if there is any large debt-funded capex, which could adversely impact the credit metrics and the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	None
Consolidation/Standalone	Standalone

About the company

Sigma Electric Manufacturing Corporation Private Limited is a Pune-based company established in 1996 by Mr. Sajjan Kumar Agarwal. In FY2008, Goldman Sachs Capital Partner Fund, a private equity (PE) fund, acquired a majority equity stake (80.11%) in Sigma. In October 2016, Argand Partners LLP, a New York-based PE firm acquired a 100% ownership of the company by buying out Goldman Sachs' and Mr. Sajjan Agarwal's entire equity stake.

Sigma manufactures castings for the electrical and fittings industry, connectors and cut-outs for the power transmission and distribution sector, and customised products for the industrial, instrumentation and appliances segments. It uses a wide range of materials such as aluminium, zinc, copper, iron and steel. Sigma has 11 manufacturing units across India, with six in Pune (Maharashtra) and five in Jaipur, with a total installed production capacity of 40,164 metric tonnes per annum as on March 31, 2022. It is an export-oriented company and made nearly 90% of its exports to Sigma Electric Manufacturing Corporation, a US-based Group entity. The company services its North American customer base from a 1,80,000-square-foot warehouse and distribution centre in Garner, North Carolina, the US.

Key financial indicators (audited)

Sigma (Standalone)	FY2022	FY2023	9M FY2024*
Operating income	1467.1	1552.8	1180.3
PAT	44.4	79.0	42.2
OPBDIT/OI	14.4%	14.6%	14.6%
PAT/OI	3.0%	5.1%	3.6%
Total outside liabilities/Tangible net worth (times)	1.9	1.6	1.6
Total debt/OPBDIT (times)	2.7	2.5	3.1
Interest coverage (times)	3.2	3.3	3.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Apr 16, 2024 (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				Apr 23, 2024	Apr 04, 2024		Mar 13, 2023	Apr 19, 2022	
1 Fund based/non-fund based	Long term	212.50	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Positive)/[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/non-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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/non-fund based	NA	NA	NA	212.50	[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

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