

## Rating Rationale

September 16, 2022 | Mumbai

# SAMKRG Pistons and Rings Limited

*Rated amount enhanced*

### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.28.35 Crore (Enhanced from Rs.25.35 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL A-/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A2+ (Reaffirmed)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

### Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of SAMKRG Pistons and Rings Limited (SAMKRG) at 'CRISIL A-/Stable/CRISIL A2+'.

Revenue grew 5% year-on-year in fiscal 2022, driven by better volumes from strong replacement market demand and exports. However, profitability moderated by 240 basis points to 14.1% in fiscal 2022 on account of partial passing on of increase in material cost to customers along with normalisation of selling and general administrative expenses (pertaining to sales promotion, advertisement and publicity, travelling and conveyance) that had decreased in fiscal 2021 on account of the pandemic. The company derives nearly 46% of its revenue from domestic automobile original equipment manufacturers (OEMs) and about 33% and 21% from domestic aftermarket and exports, respectively.

Revenue in fiscal 2023 is expected to grow by 5-7% on the back of strong aftermarket demand and exports, which partially mitigate the lower offtake from OEMs due to shift towards electric vehicles (EVs) where pistons are not required in engines. SAMKRG is developing EV engine parts in collaboration with its clientele, which should be ready for rollout in 8-9 months. Furthermore, the company has already started manufacturing pistons for SUVs, tractors and industrial engines where the impact of EV transition is very low. In the interim, revenue decline due to lower offtake from OEMs will be partially offset by higher aftermarket demand and exports.

Financial risk profile remains strong because of healthy accrual, moderate capital expenditure (capex) plans and working capital requirement, and minimal debt obligation.

The ratings continue to reflect the established position of SAMKRG in the pistons and piston-rings industry and healthy financial risk profile because of comfortable gearing and strong debt protection metrics. These strengths are partially offset by susceptibility of profitability to volatility in raw material prices and foreign exchange rates, and limited presence in the four-wheeler segment.

### Analytical Approach

For arriving at its ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of SAMKRG.

### Key Rating Drivers & Detailed Description

#### Strengths:

- **Healthy financial risk profile:**

Financial risk profile is supported by steady improvement in cash accrual and declining debt levels with adequate liquidity. Gearing is expected to remain stable at below 0.1 time as on March 31, 2023. Interest coverage and net cash accrual to total debt ratios are also expected to remain robust at above 20 times and 1.0 time, respectively, over the medium term. SAMKRG is expected to spend an average of Rs 15-20 crore per annum over the medium term towards diversification and upgrading of facilities, which will be funded through internal accrual.

Financial risk profile will remain healthy over the medium term on the back of healthy cash accrual to fund moderate capex and marginal working capital requirement, thereby restricting further debt on books.

- **Established position in the domestic pistons and piston-rings market:**

SAMKRG has a strong position in the piston and piston-rings market and caters to a diversified customer base in the two-wheeler segment. This is supported by promoter experience of more than two decades in manufacturing piston. In the OEM segment, the company has longstanding relationships with established two-wheeler manufacturers and caters to a major share of their piston requirement. It is also widely present in the replacement market, operating through a strong network of dealers and distributors across India. Moreover, about 21% of net sales in fiscal 2022 came from exports, driven by superior product quality and technical expertise from Japan and German consultants.

Diversified customer base protects the company from client concentration risk. Business risk profile is expected to remain stable over the medium term, backed by the extensive experience of its promoter and strong client relationship.

#### Weaknesses:

- **Susceptibility of profitability to fluctuations in raw material prices**

Business is inherently exposed to fluctuations in the prices of key raw materials, aluminium and steel. SAMKRG enters into annual pricing contracts with OEMs and any major increase in raw material prices is generally transferred. However, given the severe price competition amid OEMs, component manufacturers are also hard-pressed to supply goods at competitive rates. In the replacement market, the company is fully exposed to price fluctuations as maintaining operating margin is determined by the ability to transfer cost increases to end users without any impact on volumes. Over the medium term, margin will likely remain susceptible to both fluctuations in raw material prices and pricing pressure from OEMs.

- **Limited revenue diversity with minimal presence in the four-wheeler components segment:**

SAMKRG mainly caters to the two-wheeler segment and has a marginal presence in four-wheeler parts and generator sets. Though the company plans to increase its presence in the four-wheeler and export markets and has reported increased traction, it will remain a small player in this segment over the medium term because of intense competition from other established players. Concentrated operations in the two-wheeler parts industry exposes the company to any changing demand patterns or regulations.

#### Liquidity: Adequate

Cash accrual is expected to be about Rs 30 crore in fiscal 2023 against minimal debt obligation. Accrual is likely to improve steadily to above Rs 30 crore over the medium term, driven by restoration of volume growth from fiscal 2023 onwards and healthy profitability. Capex of Rs 15-20 crore per annum towards upgrading of existing facilities will be funded through internal accrual.

#### Outlook: Stable

The company will maintain its business risk profile over the medium term, supported by its longstanding relationships with two-wheeler OEMs, established presence in the after-market segment, and steadily growing presence in the export segment. Financial risk profile will remain healthy, backed by comfortable gearing and strong debt protection metrics.

#### Rating Sensitivity factors

##### Upward factors

- Significant and sustained growth in revenue supported by stable improvement in operating margin to 15-16%, leading to higher accrual over the medium term
- Improvement in business risk profile driven by higher market share and sustained increase in order flow from export and OEM customers, including expansion in the commercial vehicles segment

##### Downward factors

- Significant weakening of capital structure and debt protection metrics due to larger-than-expected debt-funded capex, leading to gearing above 0.75 time
- Weakened business performance or potential negative impact from changing regulations in the automotive industry

#### About the Company

SAMKRG was set up in March 1985 by Mr S D M Rao, who is currently its chairman and managing director. The company manufactures pistons, piston pins and piston-rings. While its main plant is in Hyderabad, it has two other units in Srikakulam near Visakhapatnam (Andhra Pradesh). SAMKRG caters mainly to the two-wheeler segment (accounted for 95% of its revenue in fiscal 2020) with limited presence in four-wheeler parts.

#### Key Financial Indicators

As on / for the period ended March 31		2022	2021
Revenue	Rs Crores	238	226
Profit after tax (PAT)	Rs Crores	14	17
PAT margin	%	5.8	7.7
Adjusted debt/adjusted networkth	Times	0.12	0.04
Interest coverage	Times	22.11	35.58

On a standalone basis, net profit was Rs 3 crore in the first quarter of fiscal 2023 on revenue of Rs 59 crore, against loss of Rs 1.02 crore and Rs 52 crore, respectively, in the corresponding period previous fiscal.

**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. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs cr.)	Complexity levels	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	0.05	NA	CRISIL A2+
NA	Letter of Credit	NA	NA	NA	5.0	NA	CRISIL A2+
NA	Cash Credit	NA	NA	NA	20.0	NA	CRISIL A-/Stable

NA	Standby Line of Credit	NA	NA	NA	3.3	NA	CRISIL A-/Stable
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## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	23.3	CRISIL A-/Stable	21-02-22	CRISIL A-/Stable	--	--	03-11-20	CRISIL A-/Stable	22-05-19	CRISIL A-/Stable	CRISIL A-/Stable
				--	--	--	--	05-05-20	CRISIL A-/Stable	10-04-19	CRISIL A-/Stable	--
Non-Fund Based Facilities	ST	5.05	CRISIL A2+	21-02-22	CRISIL A2+	--	--	03-11-20	CRISIL A2+	22-05-19	CRISIL A2+	CRISIL A2+
				--	--	--	--	05-05-20	CRISIL A2+	10-04-19	CRISIL A2+	--

All amounts are in Rs.Cr.

## Annexure - Details of Bank Lenders &amp; Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	0.05	State Bank of India	CRISIL A2+
Cash Credit	17	State Bank of India	CRISIL A-/Stable
Cash Credit	3	State Bank of India	CRISIL A-/Stable
Letter of Credit	5	State Bank of India	CRISIL A2+
Standby Line of Credit	3.3	State Bank of India	CRISIL A-/Stable

This Annexure has been updated on 16-Sep-22 in line with the lender-wise facility details as on 16-Sep-22 received from the rated entity.

## Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Auto Component Suppliers</a>
<a href="#">CRISILs Criteria for rating short term debt</a>

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