



September 17, 2010

ICRA revises the ratings for the bank facilities of Sunstar Precision Forge Limited

ICRA has revised the ratings for the Rs 36.39 crore¹ bank facilities of Sunstar Precision Forge Limited (SPFL) to LBB-/A4 (pronounced L double B minus/ A four) from LB/A4 (pronounced L B/ A four)[†]. The long-term rating has been assigned a "stable" outlook.

The revision in long term rating of SPFL takes into account the improved operating performance of the company during 2009-10 with the company reporting strong growth in operating profits, healthy cash accruals coupled with equity infusion by promoters resulting in improvement in capital structure. The rating also factors in the continued financial support from promoters in the form of equity/unsecured loans and the improving outlook for domestic auto market as well as select export markets. The ratings are however constrained by the modest scale of operations of the company; moderately high financial risk profile characterized by moderate gearing and debt coverage indicators; stretched liquidity position as reflected in the high working capital utilization levels and high working capital intensity of the company. The ability of the company to grow its business with existing customers and expand customer base and at the same time maintain its financial risk profile in the context of large capital expenditure plans in the future would be a key rating sensitivity.

Company Profile

SPFL has been promoted by three families i.e. Gargs, Guptas and Goels. The company is involved in forging and machining of auto components for Indian as well as international players. The manufacturing facility is located in Greater Noida and has an area of around 80,000 sq. meters.

Gargs and Goels are partners in manufacturing of katha for the last 12-13 years. This business is carried through 2 private companies namely, Shiva Katha Pvt Ltd. and Swastik Katha Pvt Ltd. Both these manufacturing units are situated on National Highway No.10, 36th milestone Delhi-Rothak Road, District Rothak, Haryana. In addition to this, Garg family is engaged in wholesale trading of dry fruits, Kirana items, betel nut etc. This business is carried from Tilak Bazar, Khaari Baoli, Delhi office. They are engaged in this business for the last 30-40 years. Goels are also engaged in wholesale and retail trading of Iron and Steel and manufacturing of agricultural Implements. Both these business are carried at Sampla, Distt. Rothak, Haryana.

Guptas are related to Gargs and are in forging business for the last 30 years. Mr. Sadhu Ram Gupta, a Director on the company's board is a Director of Sadhu Forging Limited, Faridabad for the last 30 years. Mr. Vinay Kumar Gupta has worked as Executive Director in Sadhu Forging Ltd. for 6 years. The Gupta family has exited from SPFL since February 2008 and Mr. Vijay Kumar Gupta & Mr. Sadhu Ram Gupta have ceased as Directors of the company.

In 2009-10, SPFL's operating income at Rs. 41.7 crore, reported a 187% growth over the previous year. The company reported operating profit of Rs. 9.6 crore in 2009-10 (operating loss of 0.4 crore in 2008-09) and net profits of Rs 1.1 crore (net loss of Rs 9.4 crore in 2008-09).

Recent Results

In Q1 2010-11 (provisional financials), SPFL recorded operating income of Rs. 15.8 crore. The firm's operating profit before depreciation, interest and tax and profit after tax (PAT) were Rs 3.3 crore and Rs. 1.5 crore respectively.

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¹ 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex".
The classification of instruments according to their complexity levels is available on the website www.icra.in

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