March 28, 2024

Sunbeam Generators Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	7.00	7.00	[ICRA]BBB (Stable); reaffirmed
Bank Guarantee	1.50	1.50	[ICRA]A3+; reaffirmed
Unallocated Limits	1.50	1.50	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for Sunbeam Generators Pvt. Ltd. (SGPL) favourably factors in the established track record of the company in the diesel generator (DG) industry, supported by its position as one of the leading manufacturing and distribution channel partners for Kirloskar Oil Engines Limited (KOEL) gensets for over 20 years. Additionally, the ratings derive comfort from the inflow of steady orders for transit mixers. Long relationship between SGPL and KOEL in the gensets segment and continued offtake by Ashok Leyland in the transit mixers segment provide healthy revenue visibility in the near-to-medium term.

In FY2023, SGPL has been able to achieve a turnover of Rs. 324.6 crore, registering a year-on-year growth of 13% while witnessing a recovery in its operating profit to 1.5% (a 90 basis points improvement from FY2022). Also, in 11M FY2024, SGPL generated revenues of ~Rs. 350.9 crore along with a profit before tax (PBT) of ~Rs. 9 crore which showcases further improvement in performance for FY2024. The improvement in FY2024 performance is supported by increase in sales volume in the gensets divisions and moderation in raw material costs. That said, ICRA notes that the genset industry is in a regulatory transition phase with the applicability of new norms from the Central Pollution Control Board (CPCB 4) for production and sale of gensets from July 2024, which will increase the cost of purchase for customers significantly. While gensets are non-discretionary product and are imperative for uninterrupted operations for various industries, however, given the steep 30-60% price hikes announced by the industry, the impact of the upcoming transition on SGPL's performance in FY2025 remains to be seen. To diversify its revenue base in the medium-to-long term, the company is driving various other growth avenues, which include initiatives to explore new opportunities in the infrastructure equipment segment as well as the recent venture into the cold chain logistics segment. These new businesses have been top line accretive, however, given the early stage of maturity, their contribution to the overall earnings remains minimal at present. The company's ability to significantly scale up these businesses will be crucial for SGPL's earnings growth in the medium-to-long term. The ratings continue to reflect SGPL's modest financial profile, characterised by a low gearing and comfortable coverage metrics.

The ratings, however, remain constrained as SGPL is exposed to the inherent cyclicality prevalent in the diesel genset industry as well as changes in regulations. The ratings are also constrained by SGPL's high supplier concentration risk, with the company essentially involved in manufacturing and distributing KOEL's branded diesel genset (where primary components such as engines and alternators are supplied by KOEL). As the geographical territories of operations are defined by KOEL, it limits new market expansion opportunities for SGPL. The company generates bulk of its sales from the Southern states of Tamil Nadu, Andhra Pradesh, Telangana, and Karnataka, exposing the company to geographical concentration risks. In addition, over 80% of the top line comes from generator sales, which exposes the company to product concentration risk as well. Given the limited value addition involved in assembling of diesel gensets amid intense competition prevalent in this cyclical industry, SGPL's profitability indicators remain low on an absolute basis. Moreover, with limited annual accretion to reserves over the years, SGPL's absolute net worth remains modest at present, which limits its ability to withstand a prolonged period of industry downturn. Further, demand for diesel generator sets remains vulnerable to the changing regulatory norms for tighter emission levels and a consequent increasing demand for alternative cleaner power back-up solutions.

The Stable outlook on the long-term rating reflects the gradually improving demand environment in the diesel generator segment, increasing market share in the infrastructure equipment segment, and plans to foray into other high-growth segments, which are expected to shore up the revenues and profit margins, and in turn the business return indicators, going forward.

Key rating drivers and their description

Credit strengths

Extensive operating track record in genset manufacturing – Established in 1996, SGPL has a long operating history in the genset business. The management's rich experience, for over two decades, in the genset manufacturing business has helped SGPL in expanding its geographical reach within its regions of operations in Tamil Nadu, Andhra Pradesh and Telangana.

Revenue visibility through established relationship with KOEL and Ashok Leyland – SGPL is one of the leading OEMs for KOEL for the 2.4-1,500 kVA genset segment. Its established relationship with KOEL, spanning over 20 years, has been positively reflected in SGPL's prominent presence in the diesel genset market in Tamil Nadu, Andhra Pradesh and Telangana (a ~21.74% market share in FY2023). Additionally, the ratings derive comfort from the inflow of steady orders for transit mixers. Ashok Leyland contributed ~6% to its total revenue in FY2023, vide the contract for manufacturing and mounting of concrete mixers on their chassis. The revenues in FY2023 stood at Rs. 324.6 crore, up 13% from FY2022. In 11M FY2024, SGPL has already achieved turnover of Rs. 350.9 crore and is poised for a ~20% YoY growth for FY2024 full year. The revenue growth witnessed in FY2024 is supported by the established relationships with KOEL and Ashok Leyland. Moreover, the company has been able to tap SGPL's management expertise in driving various growth opportunities, which include initiatives to explore new product additions (like boom pumps, batching plants, concrete pump) in the infrastructure equipment segment in addition to foray in refrigerated containers, to be mounted on trucks.

Recovery in profitability since FY2023 and is expected to improve in FY2024/FY2025 – In FY2023, OPBDITA for SGPL improved to 1.5% against 0.4% in FY2022. This was due to a 90 basis points reduction in raw material cost for the company. In FY2024, the profitability is further expected to recover to the pre-Covid level, supported by the healthy growth in scale, which enables the company to better absorb its fixed costs. ICRA expects the OPBDITA margin to improve by 100-200 basis points to ~3% in FY2024, which is likely to sustain at this level in FY2025 as well. Notwithstanding these improvements, the company's absolute profit remains at a moderate level.

Modest financial risk profile characterised by low gearing and comfortable debt coverage indicators – The company has external borrowing comprising entirely cash credit borrowing facilities of Rs. 2.6 crore outstanding as on March 31, 2023. This resulted in low debt levels and a comfortable capital structure with a gearing and Total Outside Liabilities/Tangible Net Worth of 0.1 times and 1 times, respectively as on March 31, 2023. Despite modest operating margins, low external debt levels led to a healthy interest coverage of 10.0 times in FY2023 against 3 times in FY2022, which are expected to further improve in FY2024 following the expected improvement in profitability during this fiscal.

Credit challenges

Operations exposed to inherent cyclicality prevalent in diesel genset industry as well as changes in regulations – The company's revenue growth in the genset segment remains exposed to the inherent cyclicality associated with the capex undertaken by the industrial/retail sector. Demand from the DG sets remains vulnerable to the changing regulatory norms for tighter emission levels and a consequent increasing demand for alternative cleaner power back-up solutions. Besides, proposed implementation of new CPCB-4 norms by June 2024 is expected to lead to material price hikes for the new products complying with more stringent emission norms. This not only poses risk to the medium-term demand growth due to higher cost implications for buyers, but also carries the potential for disruption in demand patterns during the transition period.

Exposure to high geographical and product concentration risks – The company's operations are characterised by high product and geographical concentration. SGPL faces high product concentration risk with a predominant share of its revenue (86% in FY2023 and 84% in 7M FY2023) coming from genset sales. However, it has been diversifying its product profile and is manufacturing various infrastructure equipment at present. It generates a portion of revenue from the infrastructure segment through sale of transit mixers, which contributed 10.5% to its revenue in FY2023 and 12.3% in 7M FY2024. Further, the company's genset sales are restricted to Tamil Nadu, Andhra Pradesh and Telangana, resulting in geographical presence in the diesel genset segment being restricted to South India. Also, it faces direct competition from Genlite Engineering Pvt. Ltd. (another OEM of KOEL), which has geographical presence in SGPL's addressable markets.

Dependence on KOEL's brand and key diesel genset component – The company mainly depends on KOEL for purchasing the large share of its key components such as engines and alternators, which exposes SGPL to supplier concentration risks. Further, the products are sold under KOEL's brand. However, the risk is partly mitigated because of SGPL's established relationships with KOEL and co-branding privileges enjoyed by the entity. Besides, SGPL's established distributor profile in the region supports the long-term sustainability of its relationship with KOEL.

Low profitability due to low entry barriers and stiff competition; modest net worth – The genset manufacturing industry is characterised by stiff competition with low entry barriers. SGPL competes with other OEMs of KOEL as well as other genset brands in its region of operations. The primary components of diesel gensets such as engines and controllers are manufactured by KOEL and the company's value addition to the final product remains relatively lower. Given the limited value addition involved in assembling of diesel gensets amid intense competition prevalent in this cyclical industry, SGPL's profitability indicators remain low on an absolute basis. Moreover, with limited annual accretion to reserves over the years, SGPL's absolute net worth remains modest at present, which limits its ability to withstand a prolonged industry downturn.

Liquidity position: Adequate

SGPL does not have any external term loan as on date. As on February 29, 2024, the company had a fixed deposit balance of approximately Rs. 18 crore. The positive cash flow from operations generated in addition to the liquidity balance is adequate to meet its capex requirements. Moreover, as of end-February 2024, the company's cash credit limits of Rs. 7 crore had an utilisation of 37%, providing an additional liquidity buffer. Therefore, the company's liquidity has been assessed as adequate.

Rating sensitivities

Positive factors – ICRA could upgrade SGPL's ratings if the company is able to significantly improve its profitability while scaling up its operations on a sustained basis, leading to strengthening of the company's net worth.

Negative factors – Pressure on the company's ratings could arise if the company's earnings come under pressure, leading to weakening of the liquidity and credit metrics. Further, the ratings could also come under pressure if there is any adverse change in the business relationship with KOEL/ Ashok Leyland, or if sizeable capex/investments weaken its liquidity position. Specific credit metric that could also lead to ratings downgrade include TOL/ TNW of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

Incorporated in 1996, SGPL is involved in the manufacture and distribution of canopied diesel generator sets and is one of the leading generator OEMs for KOEL. The company offers genset in the wide range of 2.4-1,500 kVA rating. SGPL also has presence in the infrastructure equipment sector through transit mixers (own branded) and batching plants among other offerings. The company has wind electric generators installed in the Coimbatore region (capacity of 1.75 MW). SGPL manufactures sheet metal parts and is equipped with an in-depth sheet metal conversion expertise, complemented by the next-generation machinery infrastructure. SGPL's manufacturing unit is in Puducherry. The manufacturing set-up includes a steel processing centre, equipped with a combination of semi and fully automatic CNC machines. It has an in-house fabrication shop that produces highly precise fabricated components. Recently, SGPL has also forayed into development of refrigerated containers for trucks to enter the cold chain logistics space.

Key financial indicators (audited)

SGPL	FY2022	FY2023
Operating income	286.4	324.6
PAT	1.1	2.9
OPBDIT/OI	0.4%	1.5%
PAT/OI	0.4%	0.9%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	3.0	0.6
Interest coverage (times)	3.0	10.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	Jan 11, 2023	Mar 10, 2022	Dec 10, 2020
1	**Cash Credit**	Long Term	7.00	-	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	**Bank Guarantee**	Short Term	1.50	-	**[ICRA]A3+**	[ICRA]A3+	[ICRA]A2	[ICRA]A2
3	**Unallocated Limits**	Long Term / Short Term	1.50	-	**[ICRA]BBB (Stable) / [ICRA]A3+**	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB+ (Negative) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Bank Guarantee	Very Simple

Unallocated Limits	NA

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	**Cash Credit**	NA	NA	NA	7.00	[ICRA]BBB (Stable)
NA	**Bank Guarantee**	NA	NA	NA	1.50	[ICRA]A3+
NA	**Unallocated Limits**	NA	NA	NA	1.50	[ICRA]BBB (Stable) / [ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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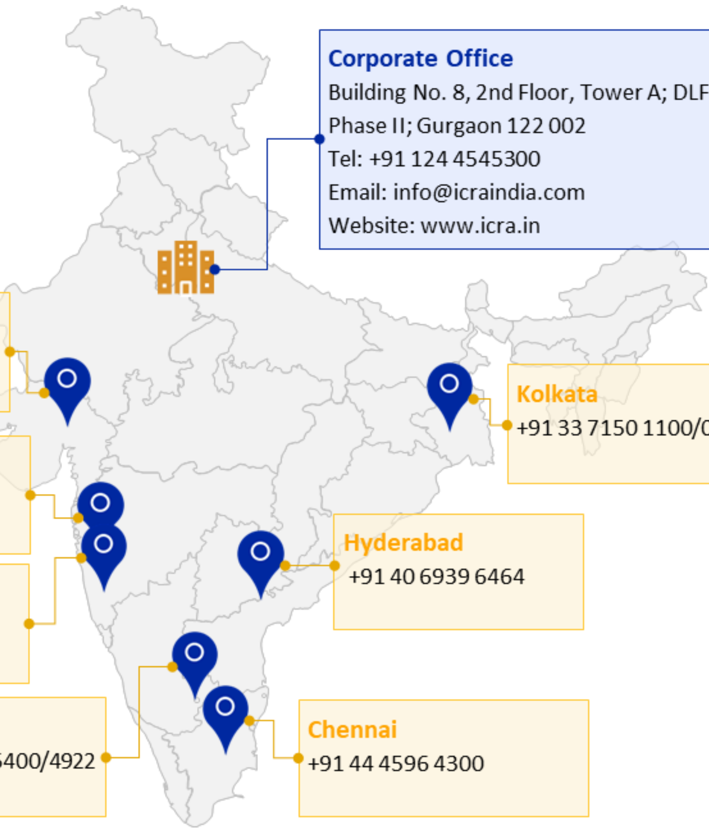

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