December 15, 2022

Super Auto Forge Private Limited: Ratings reaffirmed; outlook on the long-term rating revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term - Fund Based/ CC	60.00	60.00	[ICRA]AA-; reaffirmed Outlook revised Positive from Stable
Short-Term - Fund Based	60.00	60.00	[ICRA]A1+; reaffirmed
Short-Term – Interchangeable (sublimit)	(140.00)	(140.00)	[ICRA]A1+; reaffirmed
Long-Term/Short-Term Unallocated	20.00	20.00	[ICRA]AA- /[ICRA]A1+; reaffirmed Outlook on the long-term rating revised to Positive from Stable
Total	**140.00**	**140.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating factors in the strong growth in Super Auto Forge Private Limited's (SAFPL/the company) revenues and accruals in FY2022 and H1 FY2023, the company's healthy order book position, and the expectation that this trend would continue going forward as well. The company reported topline of Rs. 1,096.3 crore in FY2022 and Rs. 679.3 crore in H1 FY2023, as against annual turnover ranging between Rs. 600 and 750 crore during FY2019 and FY2021. The revenue increase was primarily aided by organic growth of existing programmes and new business additions. It also benefitted from increased realization from commodity price rise and favourable forex movement. Further, the company has healthy orderbook, supported by supplies to new platforms and scale-up of volumes from new programmes catered to in the last 2-3 years. This is expected to support the company's revenues in the next 6-12 months. However, the extent of revenue improvement remains to be seen, given the ongoing export slowdown. The operating profit margins also witnessed improvement to 35.7% in FY2022 and 36.0% in H1 FY2023, from ~30% pre-Covid, supported by better product mix favourable forex movement and benefits from improved operating leverage. The margins are expected to remain strong going forward as well. The company remains net debt negative and has strong liquidity with unencumbered cash and liquid investments of Rs. 212.9 crore as on September 30, 2022. SAFPL's capital structure and coverage metrics are expected to remain strong over the medium, in the absence of debt-funded capex plans, despite the relatively high working capital intensity.

The ratings also favourably factor in SAFPL's diverse product portfolio, which mitigates risks arising from product-specific technology changes to a large extent. Also, SAFPL would not be impacted by the impending EV transition, with the company's products not being engine components. Further, the company has an established customer profile comprising several reputed tier-I players in India and globally and has been maintaining its healthy share of business with its customers as well. However, the company derives more than 70% of its revenues from its top five customers, though its long-standing relationships, history of low churn rates and new business additions mitigate the risk to a large extent.

Key rating drivers and their description

Credit strengths

Healthy margins aided by presence in a niche product segment and high technological capabilities – SAFPL has an established presence in the cold and warm forging segment for over four and a half decades. There are only few players in the cold forging space because it being technologically intensive and requires high precision, resulting in limited competition. The technology intensiveness and limited competition have resulted in strong margins for SAFPL over the years. SAFPL's consolidated OPM was 35.7% in FY2022 and 36.0% in H1 FY2023.

Conservative debt metrics and strong liquidity – Aided by healthy accruals and limited debt-funded capex in the past, SAFPL has remained net debt negative for the last several years. The company had a gross debt of Rs. 89.0 crore and sizeable unencumbered cash and liquid investments of Rs. 212.9 crore as on September 30, 2022. Its average working capital utilization remained low at 29% of the drawing power for the period November 2021 - October 2022. In the absence of debt-funded capex plans and anticipated healthy accruals going forward, ICRA expects SAFPL's debt metrics and liquidity to remain strong over the medium term.

Established customer profile – SAFPL continues to supply to several reputed tier I players in India and globally and has been maintaining its healthy share of business with its customers. The company is a primary supplier of its products to the respective customers for some of its new businesses. SAFPL's long-standing relationship with customers and its strong technological capabilities has resulted in steady repeat/new businesses orders and the company has had a very low history of churn rates.

Diverse product portfolio – SAFPL has a diverse product portfolio comprising driveshaft components (56% of revenues in FY2022), brake components (21% of revenues) and steering/suspension components (22% of the revenues). Further, the company also manufactures components for non-automotive applications like electrical appliances and defence, though these constituted minimal revenues in FY2022. The diversified revenue base mitigates risks arising from product-specific technology changes to a large extent. The company is also unlikely to be materially impacted by transition to EVs as it is not involved in production of engine components.

Credit challenges

Slowdown in exports could impact revenues in the next 6-12 months – The company derives over 80% of its revenues from the export markets, with ~65-70% revenues from the North America and 15-20% from Europe and supplies predominantly to the passenger vehicle segment. The export orders have slowed down in the last few months, impacted by the economic gloom, geopolitical tensions and supply-chain issues. Nevertheless, the company's healthy orderbook, supported by supplies to new platforms and scale-up of volumes from new programmes catered to in the last 2-3 years mitigate the revenue risk to a large extent.

High working capital intensity - By virtue of deriving over 80% of its revenues from the export markets and consequently longer lead times, the company holds relatively high levels of inventory. This has resulted in high working capital intensity (NWC/OI) of over 45% over the last few years. However, SAFPL's borrowings remain low, owing to strong accruals and this provides comfort to an extent.

High customer concentration – The company has high client concentration with its top five customers contributing to 74% of the revenues in H1 FY2023. However, SAFPL's strong technological capabilities, established customer relationships over the past four and half decades, history of low churn rates and new business additions mitigate the risk to an extent.

Liquidity position: Strong

SAFPL's liquidity is strong with sizeable cash and liquid investments of Rs. 212.9 crore as on September 30, 2022. Its average working capital utilization remained low at 29% of the drawing power for the 12 months period ended October 31, 2022. The anticipated business accruals are also likely to support SAFPL's liquidity. As against these sources of cash, the company has no repayment obligations owing to the absence of long-term loans on its books. SAFPL has annual capex plans of about Rs. 100.0 crore during FY2023 to FY2025, to be funded through internal accruals. The company has had a history of buybacks, and this could continue going forward as well. Nevertheless, ICRA expects SAFPL to be able to meet its medium-term commitments through internal sources of cash and yet be left with healthy cash/liquid investments surplus.

Rating sensitivities

Positive factors – ICRA could upgrade SAFPL's long-term rating with sustained improvement in revenues, earnings and cashflows while maintaining comfortable debt protection metrics.

Negative factors – Negative pressure on SAFPL's ratings could arise from weakening of performance, leading to sharp deterioration in earnings; or sizeable debt-funded capex, dividend pay-out or buyback leading to weakening of liquidity or coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the SAFPL's consolidated financial profile

About the company

Super Auto Forge Private Limited is primarily a tier-II auto component supplier and is engaged primarily in the manufacturing of cold forged/cold extruded steel and aluminium components for domestic (16% of revenues in FY2022) and export markets (84% of revenues in FY2022). Driveshaft application components contributed to 56%, brake parts contributed to 21% and steering and suspension components contributed to the remaining. The company has six manufacturing facilities, located in and around Chennai. SAFPL has two fully owned subsidiaries, Super Auto Forge Inc, USA and Super Auto Forge BVBA, Belgium, engaged in the exclusive distribution of the company's products in North America and Europe.

Key financial indicators (audited)

SAFPL Consolidated	FY2021	FY2022
Operating income	739.0	1,096.3
PAT	177.5	254.9
OPBDIT/OI	33.8%	35.7%
PAT/OI	24.0%	25.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.3	0.2
Interest coverage (times)	127.2	125.3

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					December 15, 2022	September 06, 2021	July 06, 2020	April 06, 2020	-
1	**Fund Based/ CC**	Long-Term	60.00	-	**[ICRA]AA- (Positive)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- &**	-
2	**Fund Based**	Short-Term	60.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+ &**	-
3	**Interchangeable (sublimit)**	Short-Term	(140.00)	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+ &**	-
4	**Unallocated**	Long-Term/Short-Term	20.00	-	**[ICRA]AA- (Positive)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**			-
5	**Term Loans**	Long-term	-	-	**-**	**-**	**[ICRA]AA- (Stable)**	**[ICRA]AA- &**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term - Fund Based/ CC	Simple
Short-Term - Fund Based	Simple
Short-Term – Interchangeable (sublimit)	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	Cash Credit	NA	NA	NA	60.00	[ICRA]AA- (Positive)
NA	WCDL/ Export Credit (sublimit of cash credit)	NA	NA	NA	(60.00)	[ICRA]A1+
NA	Export Credit	NA	NA	NA	20.00	[ICRA]A1+
NA	PCFC	NA	NA	NA	20.00	[ICRA]A1+
NA	PSCFC (sublimit of PCFC)	NA	NA	NA	(20.00)	[ICRA]A1+
NA	EPC (sublimit of PCFC)	NA	NA	NA	(20.00)	[ICRA]A1+
NA	Multiline	NA	NA	NA	20.00	[ICRA]A1+
NA	Pre-shipment finance (sublimit of multiline)	NA	NA	NA	(20.00)	[ICRA]A1+
NA	Post-shipment finance (sublimit of multiline)	NA	NA	NA	(20.00)	[ICRA]A1+
NA	Unallocated	NA	NA	NA	20.00	[ICRA]AA- (Positive)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	SAFPL Ownership	Consolidation Approach
Super Auto Forge Inc, USA	100.00%	Full Consolidation
Super Auto Forge BVBA, Belgium	100.00%	Full Consolidation

Source: Super Auto Forge Private Limited

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About ICRA Limited:

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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