

January 23, 2024

## Sunstar Precision Forge Limited: Rating Assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA] BBB+ (Stable); Assigned
Total		

\*Instrument details are provided in Annexure-I

### Rationale

ICRA's rating factors in Sunstar's strong relationships with established auto ancillaries like Meritor/Cummins and Dana across North America and the EU, corroborated by the repeat orders from these clients with a healthy share of business. Sunstar's financial profile is characterised by comfortable debt protection metrics amid healthy margins and modest leverage. ICRA expects the credit metrics to remain healthy over the near to medium term. The rating, however, remains constrained by the company's working capital-intensive nature of operations, partly owing to the comparatively longer realisation period for export sales. In addition, the company's profit margins remain exposed to volatility in foreign exchange prices, mitigated to some extent by the hedging policy adopted by the company. While the company faces input price volatility, it can pass on most of the escalation albeit with a lag, which can lead to fluctuations in margins on a YoY basis. As is prevalent in this space, the company is also exposed to competition from other players. Moreover, a large part of the company's revenues comes from the commercial vehicle (CV) segment, and it remains exposed to the cyclicity in the auto industry.

The Stable outlook on Sunstar's rating reflects ICRA's opinion that the company will continue to benefit from its established position as a supplier of commercial vehicle (CV) components as well as its foray into electric vehicle (EV) components, which would lead to revenue diversity.

### Key rating drivers and their description

#### Credit strengths

**Established relationships with large client base** – Sunstar's client base consists of large organised automotive component suppliers such as Meritor (now part of Cummins) and Dana Incorporated. The company has been able to secure repeat orders consistently with a high share of business with its key clients for the components it supplies, which is expected to continue in the medium term. Sunstar has also started supplies of components to Sona Comstar for EVs since the last fiscal which augurs well for its prospects, given the push for adoption of EV at the global level. It plans to further expand its clientele in the near to medium term.

**Comfortable financial risk profile characterised by low gearing, comfortable debt coverage and adequate liquidity** – Sunstar's financial profile continues to be comfortable, characterised by healthy margins and modest leverage. The company witnessed a revenue growth of 36% in FY2023, which along with better operating margins led to a 41% growth in its cash accruals. In 9M FY2024, the company has clocked revenues of ~Rs. 250 crore. The company has strong debt protection metrics with interest cover of 17.0 times and DSCR of 5.8 times in FY2023, given a healthy margin profile and limited debt dependence. Credit metrics and liquidity are expected to remain comfortable in the medium term, supported by steady revenue visibility amid rangebound margins.

## Credit challenges

**Exposed to cyclicity in automotive industry amid intense competition from peers** – Sunstar is exposed to industry cyclicity due to significant revenue dependence on the CV segment. While current presence in the EV segment is limited, it is expected to scale up going forward. As is prevalent in this sector, the company faces competition from other domestic players – both organised as well as unorganised ones, which constrains its scale of operations. Given the sourcing by its client base is not vendor exclusive, Sunstar remains vulnerable to any demand shocks although the long-standing relationships act as mitigant to an extent.

**Exposure to foreign exchange fluctuations and input price volatility** – More than 30% of the company's revenues is derived from export sales. Hence, its profit margins remain exposed to volatility in foreign exchange prices; although the same is mitigated to some extent by the hedging policy adopted by the company. ICRA also notes that the company's margins are exposed to input price volatility. However, it can pass on the majority of the variations, though with a lag, which results in some margin volatility. ICRA notes that the company is entering into arrangements to source renewable power, which would reduce its power costs and support margin profile.

**High working capital intensity of operations** – Sunstar's operations remained working capital intensive with NWC/OI of ~34% as on March 31, 2023, though better than 42% as on March 31, 2022. The same is expected to be on similar lines in the current fiscal. While the company has to offer credit days of up to 90 and 180 to its domestic and export clients, respectively, it also keeps inventory of around 60 days.

## Liquidity position: Adequate

Sunstar's liquidity position remains **adequate**, with cash flow from operations of ~Rs. 20 crore in FY2023 and a modest annual repayment obligation of Rs. 4.2 crore for FY2024 and Rs. 3.3 crore in FY2025. The average working capital utilisation level was 55% for the 12-month period ended December 2023, resulting in an adequate liquidity buffer when compared to drawing power. Further, the company had cash and bank balances to the tune of Rs. 1.7 crore as of December 2023. Sunstar is expected to incur annual capex of Rs. 8-9 crore in the medium term, which will be funded through internal accruals.

## Rating sensitivities

**Positive factors** – The rating could be upgraded in case of any significant scale up in the revenues and profitability of the company, along with diversification in its geographic and customer industry profiles on a sustained basis.

**Negative factors** – The rating could witness a downward revision in case of any sustained adverse impact on the revenue/profitability of the company or any larger-than-expected debt-funded capex, leading to deterioration in debt protection metrics. Further, a higher working capital requirement leading to an adverse impact on the liquidity position of the company can trigger a downward rating revision. A specific credit metric for a downgrade is if Total Debt/OPBITDA increases to more than 2.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Methodology for Auto Components</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Promoted by the Garg and Gupta families, Sunstar Precision Forge Limited (Sunstar) is engaged in the forging and machining of auto components for various auto ancillary companies in India and abroad. The company's product portfolio has over 70 products and its manufacturing facility is in Greater Noida with a forging capacity of around 1,300 MT/month.

Sunstar makes components primarily for the CV segment. The components find use in transmission. Yoke, shifter forks and companion flanges make up 60-70% of production volume, contributing 55% of total revenues. The company is also engaged in the machining of gear parts.

## Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	231.8	314.8
PAT	13.4	24.0
OPBDIT/OI	11.3%	12.9%
PAT/OI	5.8%	7.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	1.7	1.1
Interest coverage (times)	13.6	17.0

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amounts 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 (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 23, 2024	-	Nov 03, 2021	Dec 28, 2020
1 Issuer rating	Long term	-	-	[ICRA] BBB+ (Stable)	-	-	-
2 Cash Credit	Long term	-	-	-	-	[ICRA] B+(Stable); ISSUER NOT COOPERATING WITHDRAWN	[ICRA] B+(Stable); ISSUER NOT COOPERATING
3 Term Loan	Long term	-	-	-	-	[ICRA] B+(Stable); ISSUER NOT COOPERATING WITHDRAWN	[ICRA] B+(Stable); ISSUER NOT COOPERATING
4 Unallocated limits	Long term	-	-	-	-	[ICRA] B+(Stable); ISSUER NOT COOPERATING WITHDRAWN	[ICRA] B+(Stable); ISSUER NOT COOPERATING

5	Non fund based	Short term	-	-	-	-	[ICRA] A4; ISSUER NOT COOPERATING WITHDRAWN	[ICRA] A4; ISSUER NOT COOPERATING
---	----------------	------------	---	---	---	---	---	-----------------------------------

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	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	Issuer rating	NA	NA	NA	-	[ICRA] BBB+ (Stable)

Source: Company

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

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**

+91 022 61143400

[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Sheetal Sharad**

+91 124 4545308

[sheetal.sharad@icraindia.com](mailto:sheetal.sharad@icraindia.com)

**Susovan Mondal**

+91 124 4545392

[susovan.mondal@icraindia.com](mailto:susovan.mondal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.