February 19, 2024

Super Auto Forge Private Limited: Long-term rating upgraded to [ICRA]AA from [ICRA]AA-; short-term rating reaffirmed at [ICRA]A1+; outlook on long-term rating revised to Stable from Positive

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	Long-term rating Upgraded to [ICRA]AA from [ICRA]AA-; outlook on the long-term rating revised to Stable from Positive
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	Long-term rating upgraded to [ICRA]AA from [ICRA]AA-; outlook revised to Stable from Positive; short-term rating reaffirmed at [ICRA]A1+
Total	**140.00**	**140.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the long-term rating outstanding on Super Auto Forge Private Limited's (SAFPL/the company) bank lines reflects the strengthening of the company's credit profile backed by its diversified and strong product profile, established client relationships and strong financial metrics, and the expectation that it would remain strong over the medium term, despite any moderation in revenues/margins in the next 6-12 months given the weak near-term export demand outlook and increase in freight costs. The company reported a compounded annual revenue growth (CAGR) of 22.8% from FY2019 to FY2023 aided by healthy demand from existing platforms, rising supplies to new platforms because of vendor diversification initiatives by global original equipment manufacturers (OEMs), scale-up of volumes from programmes where supplies have commenced in the last few years and higher value addition. The revenue growth is expected to remain healthy over the medium term, despite any impact in the near-term. Also, while technologically intensity, high precision and limited competition have resulted in strong margins for SAFPL over the last several years, favourable product mix and increasingly higher value addition, favourable forex movement and benefits from operating leverage have resulted in further improvement in the last few years. The company reported an operating profit margin of 33.3% in FY2023 and 38.0% in H1 FY2024. ICRA expects SAFPL to report strong margins over the medium term, despite any impact in FY2025 because of increase in freight rates. SAFPL has remained net debt negative for the last several years, with unencumbered cash and liquid investments of Rs. 634.6 crore as on September 30, 2023. In the absence of debt-funded capex plans going forward, ICRA expects SAFPL's debt metrics and liquidity to remain strong over the medium term.

The ratings also favourably factor in SAFPL's diverse product portfolio, which mitigates risks arising from product-specific technology changes to a large extent. Further, the company has an established customer profile comprising several reputed Indian and global tier-I players and has had healthy share of business with its customers apart from periodic new order wins. However, the company derived ~59% of its revenues from its top three customers in FY2023, exposing it to customer concentration risk. Also, SAFPL's working capital intensity (NWC/OI) has been high at over 35% over the last few years. Nevertheless, its borrowings remain low, owing to strong accruals, which provides comfort to a large extent.

Key rating drivers and their description

Credit Strengths

Strong margins aided by presence in a niche product segment and technological capabilities – SAFPL has enjoyed an established presence in the cold and warm forging segment for over four-and-a-half decades. There are only a few players in the cold forgings space because it is technologically intensive and requires high precision, resulting in limited competition. The technology intensity and limited competition have resulted in strong margins for SAFPL over the last several years. Further, favourable product mix and increasingly higher value addition, favourable forex movement and benefits from operating leverage have resulted in sustained improvement in profit margins in the last few years. The company reported an operating profit margin of 33.3% in FY2023 and 38.0% in H1 FY2024. ICRA expects SAFPL to report strong margins over the medium term, despite any impact in FY2025 because of increase in freight rates.

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. 55.0 crore and sizeable unencumbered cash and liquid investments of Rs. 634.6 crore as on September 30, 2023. Its average working capital utilisation remained low at 20% of the drawing power for the period January 2023–December 2023. In the absence of debt-funded capex plans 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 Indian and global tier-I players and has had healthy share of business with its customers. SAFPL's established relationships with its customers and its strong technological capabilities have resulted in sustained repeat orders, low customer churn rates and healthy new businesses over the years.

Diverse product portfolio – SAFPL has a diverse product portfolio comprising driveshaft components (56% of revenues in H1 FY2024), brake components (~21%), steering/suspension components (~22%) apart from a minimal portion from components for non-automotive applications like electrical appliances and defence. 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.

Credit challenges

Revenues and margins exposed to demand dynamics in overseas markets and cost inflation – The company derives over 80% of its revenues from the export markets, with ~65-70% coming from North America and 15-20% from Europe. The supplies are predominantly to the passenger vehicle (PV) segment. The relatively high export proportion could result in some moderation in revenues for SAFPL, given the weak outlook for auto component exports in FY2025. Nevertheless, the company's healthy order book, supported by rising supplies to new platforms because of vendor diversification initiatives by global original equipment manufacturers (OEMs), scale-up of volumes from programmes where supplies have commenced in the last few years and higher value addition, mitigate the revenue risk to a large extent, and are likely to support healthy medium-term revenue prospects. Also, while the ongoing disruption along the Red Sea route has resulted in a surge in container rates by 2-3x in January 2024 and sustained higher rates for the next few months could have a bearing on margins, SAFPL's margins are likely to remain strong over the medium term.

High working capital intensity – By virtue of deriving over 80% of its revenues from the export market and consequently longer lead times, the company holds high levels of inventory. This has resulted in high working capital intensity (NWC/OI) of over 35% over the last few years. However, SAFPL's borrowings remain low, owing to strong accruals, which provides comfort to an extent.

High customer concentration – The company has high client concentration with its top three customers generating ~59% of its revenues in FY2023. However, SAFPL's strong technological capabilities, established customer relationships over the past four-and-a-half decades, a low churn rate 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. 634.6 crore, as on September 30, 2023. Its average working capital utilisation remained low at 20% of the drawing power for the period January 2023–December 2023. The anticipated business accruals are also likely to support SAFPL's liquidity. 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. 150.0 crore during FY2024 to FY2026, to be funded through internal accruals. The company has had a history of buy backs, 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 upon significant improvement in revenues, earnings and cashflows while maintaining comfortable debt protection metrics.

Negative factors – Negative pressure on SAFPL's ratings could arise from sustained weak performance, leading to sharp deterioration in earnings; or sizeable debt-funded capex, dividend pay-out or buyback leading to significant weakening of liquidity or coverage metrics. Specific metrics that could trigger a downgrade could include Total debt/OPBITDA > 1x on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
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 in the manufacturing of cold forged/cold extruded steel and aluminium components for exports (83% of revenues in H1 FY2024) and domestic market (17% of revenues). Driveshaft application components generated 56% of revenues, followed by brake parts (21%), and steering and suspension components (~22%) The company has six manufacturing facilities 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)

Consolidated	FY2022	FY2023
Operating income	1,096.3	1,425.2
PAT	277.6	332.9
OPBDIT/OI	35.7%	33.3%
PAT/OI	25.3%	23.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	0.2	0.1
Interest coverage (times)	125.3	174.5

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					February 19, 2024	December 15, 2022	September 06, 2021	July 06, 2020	April 06, 2020
1	Fund-based – CC	Long-Term	60.00	-	[ICRA]AA (Stable)	[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+	[ICRA]A1+&
3	Interchangeable (sublimit)	Short-Term	(140.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&
4	Unallocated	Long-Term/Short-Term	20.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-
5	Term Loans	Long- term	-	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- &

&: Rating Watch with Developing Implications

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(Stable)
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 (Stable)/ [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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Bikram Keshari Swar
+91 44 4596 4311
bikram.swar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

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

ICRA Limited

Registered Office

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

Branches