July 24, 2024

Stanadyne India Private Limited: Ratings reaffirmed; removed from rating watch with developing implications and ISSUER NON COOPERATING category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based – Cash credit	65.00	50.00	[ICRA]A (Stable); reaffirmed and removed from rating watch with developing implications and ISSUER NOT COOPERATING category
Long term – Fund based - Term loan	15.00	8.75	[ICRA]A (Stable); reaffirmed and removed from rating watch with developing implications and ISSUER NOT COOPERATING category
Short term fund based – Export credit	15.00	15.00	[ICRA]A1; reaffirmed and removed from rating watch with developing implications and ISSUER NOT COOPERATING category
Short term fund based – sublimit	(65.00)	(50.00)	[ICRA]A1; reaffirmed and removed from rating watch with developing implications and ISSUER NOT COOPERATING category
Short term non-fund based - sublimit	(12.50)	(12.50)	[ICRA]A1; reaffirmed and removed from rating watch with developing implications and ISSUER NOT COOPERATING category
Long term /Short term Unallocated limits	-	21.25	[ICRA]A (Stable)/[ICRA]A1; reaffirmed and removed from rating watch with developing implications and ISSUER NOT COOPERATING category
Total	**95.00**	**95.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for the bank lines of Stanadyne India Private Limited (SIPL/The company) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by its strong business profile and adequate liquidity. SIPL supplies to several reputed OEMs and tier-I players in India and globally and has healthy share of business with its customers. Further, the company's long-standing relationship with customers and its strong technological capabilities has resulted in steady repeat businesses and history of low churn rates. The ratings also draws comfort from the company's strong margins (27.2% in FY2024[1]), comfortable capital structure and coverage metrics and adequate liquidity. While the technology intensiveness of the business and localisation carried out by the company over years have supported the margins, its healthy accruals and absence of debt-funded capital expansions have supported the coverage metrics and liquidity position. The company remained net debt negative, with free cash and cash equivalents of Rs. 40.2 crore as on March 31, 2024, and this is expected to continue going forward as well, despite any material dividend payouts.

The company reported a YoY decline of 17.5% in the topline to Rs. 316.3 crore in FY2024 vis-à-vis Rs. 383.5 crore in FY2023 because of lower offtake from its customers in Europe and US, due to the macro-economic slowdown. The relatively high export proportion could result in further moderation in revenues for SIPL in the near term, given the weak export outlook for FY2025, although SIPL's strong technological capabilities, established customer relationships, history of low churn rates and new business additions mitigate the risk to an extent. Over the medium term, vendor diversification initiatives by global players would support the company's growth trajectory. ICRA also notes that the company's products are required to comply with the evolving emission norms across geographies. The resultant continuous changes in product technologies exposes SIPL to

[1] *According to unaudited financials*

obsolescence risks. However, proactive periodic upgradation of products to meet emission norm changes and its periodic product expansion mitigate the risk to a large extent. Also, while the risk of electrification over the long term remains, the pace of EV penetration in SIPL's product categories is expected to remain minimal over the medium term. By virtue of deriving 80% of its revenues from the export markets and consequently longer lead times, the company holds relatively high levels of inventory. Also, its receivables are elongated by virtue of the export focus, resulting in high working capital intensity (NWC/OI was ~30% in FY2024). Any further working capital stretch would be a rating sensitivity.

SIPL's shares were acquired by Cerberus Business Finance, LLC, (Cerberus) from Stanadyne LLC, USA in August 2023, following a filing of Chapter 11 of the Bankruptcy Code in the US by Stanadyne LLC and consequent takeover of its stake in investee entities by its secured lender, Cerberus Business Finance, LLC, through Cerberus Capital Management, LLP. While SIPL's performance has remained healthy in FY2024, and that there has been no disruption in its day-to-day operations because of the change in parentage, SIPL has provided a provision for write-off of pending receivables from the erstwhile parent company, Stanadyne LLC, amounting to Rs. 91.6 crore in FY2023. ICRA understands that there is no further write-off expected because of this, going forward. However, necessary regulatory approvals for potential write-offs are yet to be obtained and any financial implications because of the same remains a monitorable.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile and debt metrics, supported by its cash accruals, adequate liquidity position and moderate capex, despite the weak export outlook for FY2025.

Key rating drivers and their description

Credit strengths

Established clientele profile and long-standing relationship with customers; periodic addition of new customers – SIPL supplies to several reputed OEMs and tier-I players in India and globally and has healthy share of business with its customers. SIPL's long-standing relationship with customers and its strong technological capabilities has resulted in steady repeat businesses and history of low churn rates. Further, the company has been adding new customers periodically. Also, the company is a primary supplier of its products to the respective customers for some of its new businesses.

Strong margins aided by technological capabilities – SIPL has strong operating margins, supported by the relatively high technology intensity of its products. The margins, which were already strong, have increased further in the last few years to 27.2% in FY2024, supported by localisation measures amid periodic pass-through of cost increases. The strong margins have cascaded into healthy accruals. The company reported net cash accruals of Rs. 78.5 crore in FY2024. ICRA expects the company's margins to remain strong going forward as well.

Comfortable capital structure and coverage metrics – The company's debt level remained low in last three years, aided by healthy accruals and absence of debt-funded capex. Despite the sizeable dividend payout in FY2023 and FY2024, the company remained net debt negative as on March 31, 2024, resulting in comfortable capital structure and coverage metrics. With anticipated healthy cash accruals and absence of significant debt-funded capex plans going forward, ICRA expects the company's debt metrics to remain comfortable over the medium term.

Credit challenges

Moderate scale of operations; revenues exposed to demand dynamics in overseas markets – The company has moderate scale of operations with consolidated revenues of Rs. 316.3 crore in FY2024[2] and derives 80% from the exports. About 39.3% of sales was from Europe and 25.0% was from the US in FY2024. While the topline witnessed healthy Compounded Annual Growth Rate (CAGR) of 14% for the period FY2020-FY2024 supported by new business wins and incremental orders from customers, for FY2024, there was a YoY decline of 17.5% in FY2024 because of lower offtake from its customers in Europe and

[2] *According to unaudited financials*

US, due to the macro-economic slowdown. The relatively high export proportion could result in moderation in revenues for SIPL in the near term, given the weak export outlook for FY2025, although SIPL's strong technological capabilities, established customer relationships, history of low churn rates and new business additions mitigate the risk to an extent. Over the medium term, vendor diversification initiatives by global players would support the company's growth trajectory.

High working capital intensity – By virtue of deriving 80% of its revenues from the export markets and consequently longer lead times, the company holds relatively high levels of inventory. Also, its receivables are elongated by virtue of the export focus, resulting in high working capital intensity (NWC/OI was ~30% in FY2024). While ICRA understands that the company does not anticipate any material write-off of receivables going forward, any further working capital stretch would be a rating sensitivity.

Exposure to technology obsolescence risk and evolving emission norm changes – The company's products are required to comply with the evolving emission norms across geographies. The resultant continuous changes in product technologies expose SIPL to obsolescence risks. However, proactive periodic upgradation of products to meet emission norm changes and its periodic product expansion mitigate the risk to a large extent. Also, while the risk of electrification over the long term remains, the pace of EV penetration in SIPL's product categories is expected to remain minimal over the medium term.

History of dividend payouts - The company paid dividend of Rs. 52.0 crore in FY2023 and Rs. 5.8 crore in FY2024 to its erstwhile parent company. While the company has not paid any dividend post the change in parentage, ICRA would continue to monitor for any significant dividend payments that may have a material impact on the company's cash flows, going forward.

Liquidity position: Adequate

SIPL's liquidity position is adequate with a consolidated free cash and bank balance of Rs. 40.2 crore as on March 31, 2024. Further, the company had undrawn working capital lines of Rs. 65.0 crore (vis-à-vis its sanctioned limit) as on March 31, 2024. As against these sources of cash, the company has repayment obligation of Rs. 5.0 crore in FY2025 and Rs. 3.8 crore in FY2026 on its existing term loans. As against these sources of cash, the company currently has a capex plans of Rs. 15.0 crore in FY2025, Rs. 50.0 crore in FY2026 and Rs. 15.0 crore in FY2027, towards the capacity expansion and capability enhancement, apart from the regular maintenance capex. The company is likely to fund the entire capex through internal accruals. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of cash and yet be left with a cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade SIPL's ratings if it achieves material and sustainable improvement in its receivables position, scale and earnings, with minimal debt levels on its books.

Negative factors – Negative pressure on SIPL's ratings could emerge from sustained weakening of earnings, working capital stretch or a significant rise in debt, leading to weakening of liquidity or coverage metrics. Specific metrics that may result in a downgrade include net debt/OPBDITA remaining above 1.5x on a sustained basis. Any adverse regulatory developments / sizeable penalty relating to the write-off of receivables from the erstwhile parent company, could also be a trigger for negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SIPL. Details are provided in Annexure-2

About the company

SIPL is engaged in manufacturing of diesel engine fuel injection pumps and allied components, catering predominantly to overseas markets. In terms of segments, automobile and genset constituted 31.1% and 28.3% of the operating income respectively while off-road segment and others constituted the remaining in FY2024. The company derives 80% of its operating income from exports and currently supplies to overseas geographies such as the USA, Europe, South America, China among others. SIPL has two manufacturing facilities in Chennai, Tamil Nadu and Sharjah, UAE. The latter belongs to its wholly owned subsidiary, Stanadyne Mideast FZE which is based in Sharjah, UAE.

SIPL is a key company of the US-based Stanadyne Group, which is an established auto-ancillary player globally manufacturing diesel rotary pumps, common rail pumps and injection fuel pumps for gasoline engines. The erstwhile parent, Stanadyne LLC, USA held 99% stake in SIPL and 1% was held by Stanadyne PPT Holdings Inc until July 31, 2023. SIPL is currently owned by Stanadyne Operating Co LLC, which in turn is ultimately held by an investor group led by affiliates of Cerberus Capital Management, LLP.

Key financial indicators

Consolidated	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	383.5	316.3
PAT	-8.3	72.8
OPBDIT/OI	6.9%	27.2%
PAT/OI	-2.2%	23.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.3
Total debt/OPBDIT (times)	0.8	0.1
Interest coverage (times)	9.0	53.1

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with numbers 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:

Rating Agency	Rating	PR Date
CARE	CARE A- (RWD)/CARE A2+ (RWD); ISSUER NOT COOPERATING*	April 03, 2024

**Issuer did not cooperate; based on best available information.*

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025) Type	Amount rated (Rs. crore)	Date & rating in FY2025	Chronology of rating history for the past 3 years: Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				July 24, 2024	Mar 26, 2024	Nov 10, 2023	Jan 11, 2023	-
1	**Cash credit**	Long term	50.00	**[ICRA]A (Stable)**	**[ICRA]A&; ISSUER NOT COOPERATING**	**[ICRA]A&**	**[ICRA]A (Positive)**	-
2	**Term loan**	Long term	8.75	**[ICRA]A (Stable)**	**[ICRA]A&; ISSUER NOT COOPERATING**	**[ICRA]A&**	**[ICRA]A (Positive)**	-
3	**Fund based – Export credit**	Short term	15.00	**[ICRA]A1**	**[ICRA]A1&; ISSUER NOT COOPERATING**	**[ICRA]A1&**	**[ICRA]A1**	-
4	**Fund based – sublimit**	Short term	(50.00)	**[ICRA]A1**	**[ICRA]A1&; ISSUER NOT COOPERATING**	**[ICRA]A1&**	**[ICRA]A1**	-
5	**Non-fund based - sublimit**	Short term	(12.50)	**[ICRA]A1**	**[ICRA]A1&; ISSUER NOT COOPERATING**	**[ICRA]A1&**	**[ICRA]A1**	-
6	**Unallocated limits**	Long term and short term	21.25	**[ICRA]A (Stable)/[ICRA]A1**	-	-	-	-

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based – Cash credit	Simple
Long term – Fund based - Term loan	Simple
Short term fund based – Export credit	Simple
Short term fund based – sublimit	Very Simple
Short term non-fund based - sublimit	Very Simple
Long term /Short term Unallocated limits	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	50.00	[ICRA]A (Stable)
NA	**Term loan**	FY2023	10.00%	FY2026	8.75	[ICRA]A (Stable)
NA	**Export credit**	NA	NA	NA	15.00	[ICRA]A1
NA	**Working capital facilities**	NA	NA	NA	(50.00)	[ICRA]A1
NA	**Non-fund based facilities**	NA	NA	NA	(12.50)	[ICRA]A1
NA	**Unallocated limits**	NA	NA	NA	21.25	[ICRA]A (Stable)/[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Stanadyne Mideast FZE (SME)	100.00%	Full Consolidation

Source: Company

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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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