November 14, 2024

Sterling Gtake E-Mobility Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loans	25.00	25.00	[ICRA]A- (Stable); reaffirmed
Long-term/ Short-term – Non-fund based – WC	85.00	85.00	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Long-term/ Short -term – Interchangeable Limits	(36.00)	(36.00)	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Total	**110.0**	**110.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation to the bank facilities of Sterling Gtake E-Mobility Limited (SGEM) continues to factor in favourably its established position in the motor controller unit (MCU) market for the electric two-wheeler (e-2W) industry. The ratings also factor in the company's strong parentage as a 100% subsidiary of Sterling Tools Limited (STL; rated [ICRA]AA-(Positive)/[ICRA]A1+) as well as the benefits of receiving technological support from Jiangsu Gtake Electric Co. Ltd., China (Gtake).

The company, incorporated in January 2020, was initially planned as a joint venture (JV) of STL and Gtake. However, investment from the Chinese entity did not materialise due to delay in obtaining requisite foreign direct investment (FDI) approvals. SGEM continues to receive managerial and financial support from STL, as the latter infused equity worth Rs. 28.5 crore till date. SGEM is also likely to benefit from its parent's long-term relationships with auto original equipment manufacturers (OEMs), which would support revenue visibility. ICRA further notes that STL has extended an unconditional and irrevocable corporate guarantee to SGEM's bank facilities. The same, however, does not have a defined payment and invocation mechanism. The company also continues to derive significant support from the strong technical expertise of Gtake. As per the management, a formal licence agreement is at an advanced stage of execution with the Chinese entity. SGEM procures electronic components from Gtake and receives competitive rates on bulk procurement (no royalty paid out so far). Even as the company has largely localised the procurement of mechanical components, its localisation initiatives remain constrained by the limited electronic manufacturing in India at present.

SGEM has benefitted from an early-mover advantage in the electric vehicle (EV) space in terms of supply chain and technical knowhow, and this is likely to benefit it as EV penetration increases. It achieved a market share of ~40% in the high-speed scooter segment with an overall share of 30% in the e-2W segment in FY2024. SGEM recorded a top line of ~Rs. 324 crore in FY2024 (~Rs. 174 crore in FY2023) with an OPM of ~7.1% and is likely to record continued growth momentum, aided by a healthy volume increase. The margins are expected to remain steady in the range of 7-9% over the near-to-medium term.

The entity has capex plans of ~Rs. 20 crore in FY2025 towards capacity expansion, research and development (R&D) capability and testing, with the same expected to be funded through a mix of internal accruals and debt. The company had a nominal term debt of ~Rs. 6.7 crore as of March 2024, with additional debt planned to be availed in FY2025 towards capex and working capital requirements. Its financial risk profile is marked by a comfortable gearing of 0.4 times and TOL/TNW of 1.6 times as on March 31, 2024. The debt protection metrics remain healthy, with interest coverage and debt/OPBITDA ratio of 12.4 times and 0.8 times, respectively in FY2024. Even as it plans to avail additional debt, the financial risk profile is expected to remain comfortable, supported by a gradual improvement in earnings.

The said strengths are, however, partially offset by SGEM's nascent stage of operations, susceptibility to electronic component price fluctuation and foreign exchange (forex) volatility risk (although it has undertaken hedging for a part of its exposure).

Besides, its revenues are exposed to high segment and customer concentration risks with the major portion of its revenues coming from a single customer in FY2024. Nevertheless, ICRA draws comfort from its sole supplier status to the OEM, which is a leading e-2W manufacturer in India. Further, the concentration risk is likely to moderate over the medium term, supported by customer additions in the electric 2W, 3-wheeler (3W) and light commercial vehicle (LCV) segments.

The Stable outlook on the long-term rating reflects ICRA's view that SGEM is likely to maintain a healthy credit profile, benefitting from its strong parentage and healthy share of business in supplies of MCUs in the e-2W segment. Moreover, plans to diversify its customer and end-user profiles are expected to support the company's growth prospects and financial risk profile over the medium term.

Key rating drivers and their description

Credit strengths

Financial and operational support from parent, STL – SGEM benefits from the managerial, operational and financial support extended by STL, which is the second largest player in the fastener segment in India. STL has infused equity worth Rs. 28.5 crore over FY2021-FY2024 in the company and has also extended an unconditional and irrevocable corporate guarantee for its bank debt. Besides, the company continues to receive management support and is likely to benefit from the parent's long-term relationships with the auto OEMs. SGEM is likely to remain strategically important to its parent. While the company is expected to remain self-sufficient in servicing its debt obligations, its parent is likely to provide need-based support.

Technical support from Gtake, a leading Chinese supplier of MCUs – Gtake produces AC drives, MCUs, bi-directional DC sources and test rigs etc. with advanced algorithms and technology for industrial automation and new energy applications. It has a healthy market share in the MCU segment in China, as per the management. SGEM imports technology from the Chinese entity and customises as per its business requirements. It is expected to have its own proprietary technology by FY2025. Both the entities are in the process of signing a formal technical licence agreement. The royalty payout, if any, is expected to be partially adjusted against the cost incurred in procuring components, helping SGEM to maintain its healthy operating margins. As MCU is a critical component in an EV, requiring strong technical and R&D capabilities, the technological support from Gtake and its own technical know-how are likely to aid SGEM in maintaining its healthy market position over the medium term.

Leading MCU supplier in domestic high-speed, e-2W market; healthy industry growth prospects aid revenue visibility – The company earned revenues of ~Rs. 324 crore in FY2024 against Rs. 174 crore in FY2023, supported by steady demand. The firm has reported revenue of ~Rs. 120 crore in Q1 FY2025, representing a YoY growth of 65% over Q1 FY2024. It also plans to expand its capacity to supply ~6 lakh MCUs/annum by the end of FY2025 from ~4 lakh as of FY2024, to serve its customers in a timely manner. The revenue visibility over the medium term is expected to be driven by steady demand for EVs, addition of new customers as well as healthy sales volumes and realisations. The Government's focus on promoting EVs as a cleaner and sustainable form of transportation is likely to aid SGEM's revenue prospects.

Credit challenges

Modest scale of operations – Although SGEM's revenue increased to ~Rs. 324 crore in FY2024, it continues to remain modest. While the volumes have been increasing due to healthy demand, the entity witnessed a marginal drop in realisations in the current fiscal as volume discounts are being passed on to the OEM. Even as the company benefits from an early mover advantage, an improvement in its market share may remain constrained over the medium term with increased competition. Given the nascent stage of the EV industry as well as SGEM's operations, the scalability in its operations and its ability to have healthy realisations without adversely impacting volume growth remain monitorable.

Exposed to high customer and segment concentration risks – In FY2024, SGEM derived the major portion of its revenue from a single customer in the e-2W segment. Further, it has a single product, MCU, which increases concentration risk. The said risk is mitigated to an extent by its sole supplier status with most of its customers. As the company is in its nascent stage of operations and has already been working with ~40 active customers with firm contracts from 15 companies from different segments, it provides some comfort. Even as SGEM's diversification efforts are expected to help improve its business profile, a material improvement in its customer and segment profile is likely to be achieved over the medium term.

Margins susceptible to fluctuations in electronic components prices and unfavourable forex movement – SGEM's operating margin remains susceptible to volatility in input prices and other cost drivers. Thus, the profitability remains susceptible to changes in market prices according to demand-supply situation and any unfavourable movement can affect the profit margins. Besides, the company imports its electronic components entirely from China and is a net importer, which exposes it to the risks associated with adverse forex movements. In this regard, ICRA notes that the company hedges ~50% of its forex exposure and can also pass on the sustained increase in costs when the currency fluctuation breaches a certain mark.

Liquidity position: Adequate

SGEM's liquidity position remains adequate, characterised by a working capital cushion of ~Rs. 30 crore and free cash/liquid investments of ~Rs. 21.3 crore, as of March 2024. It has repayment obligations of Rs. 2.9 crore in FY2025. The company is expected to incur capex of ~Rs. 20 crore in FY2025 mainly towards capacity expansion and R&D, funded by a mix of debt and internal accruals. Accordingly, it plans to avail additional term debt of Rs. 14-15 crore in FY2025. While the company is expected to remain self-sufficient in servicing its debt obligations, STL is likely to extend funds to meet any cash flow mismatch on a need basis. The company continues to benefit from healthy financial flexibility for being a subsidiary of STL.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of sustainable improvement in revenues and profitability of the company, along with diversification in its business risk profile.

Negative factors – Any adverse regulatory decision, or a change in the Government's push towards electrification, impacting the business prospects of the company, would be a credit negative. The ratings could witness a downward revision in case of any material decline in revenues/profitability metrics, resulting in a deterioration in debt protection metrics. Specific credit metric for ratings downgrade includes Total Debt/OPBITDA increasing to more than 3.5 times on a sustained basis. Moreover, a deterioration in the credit profile of the parent entity (STL) or a weakening in the linkages between the entities could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Parent Company: Sterling Tools Ltd. ICRA takes comfort from the track record of financial support as well as the bank lines guaranteed by STL, which highlights its commitment towards the company. Accordingly, ICRA expects it to continue to support the company, should the need arise, given the strategic importance it holds.
Consolidation/Standalone	Standalone

About the company

SGEM, incorporated in January 2020, manufactures and supplies motor controller units (MCUs) for the emerging high speed 2W, 3W and LCV electric vehicle market. It is a 100% subsidiary of Sterling Tools Ltd. (STL). Earlier, it was planned to set up as a joint venture of STL and Jiangsu Gtake Electric Co. Ltd. (leading Chinese supplier of MCUs), however, considering the delay in obtaining the requisite FDI approvals, it became a wholly owned subsidiary of STL. Even as the equity infusion from Jiangsu Gtake Electric Co. Ltd. did not materialise, the entity continues to benefit from technical support from the latter. Its manufacturing facility is located at Faridabad, Haryana. The company initially started with an installed capacity of 2.4 lakh MCUs per annum, which has subsequently increased to ~4 lakh MCUs as of Q1 FY2025. The company has a high customer concentration with a single customer accounting for majority of the company's revenues.

Key financial indicators (audited)

SGEM Standalone	FY2023	FY2024
Operating income	174.4	323.9
PAT	7.5	16.6
OPBDIT/OI	6.8%	7.1%
PAT/OI	4.3%	5.1%
Total outside liabilities/Tangible net worth (times)	1.6	1.6
Total debt/OPBDIT (times)	0.7	0.8
Interest coverage (times)	8.4	12.4

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 (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs Crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Nov 14, 2024	Sep 04, 2023	-	-
1	Term Loans	Long Term	25.00	**[ICRA]A- (Stable)**	**[ICRA]A-(Stable)**	-	-
2	Non-Fund based - WC	Long Term & Short Term	85.00	**[ICRA]A-(Stable)/[ICRA]A2+**	**[ICRA]A-(Stable)/[ICRA]A2+**	-	-
3	Interchangeable limits	Long Term & Short Term	(36.00)	**[ICRA]A-(Stable)/[ICRA]A2+**	**[ICRA]A-(Stable)/[ICRA]A2+**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term/ Short-term-non-fund-based working capital	Simple
Long-term/ Short -term- Interchangeable limits	Simple

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	Term Loan	October-2022	NA	FY2027	25.0	[ICRA]A-(Stable)
NA	Non-Fund based - WC	-	-	-	85.0	[ICRA]A-(Stable)/[ICRA]A2+
NA	Interchangeable limits**	-	-	-	(36.0)	[ICRA]A-(Stable)/[ICRA]A2+

*Source: Company; **CC/WCDL limits interchangeable with NFB limits*

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

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

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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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