March 10, 2022

Sunbeam Generators Private Limited: Ratings reaffirmed at [ICRA]BBB+ /[ICRA]A2; Outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	7.00	7.00	[ICRA]BBB+ reaffirmed; outlook revised to Negative from Stable
Bank Guarantee	1.50	1.50	[ICRA]A2 reaffirmed
Untied Limits	1.50	1.50	[ICRA]BBB+/[ICRA]A2 reaffirmed; outlook revised to Negative from Stable
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook to Negative from Stable factors in Sunbeam Generators Private Limited's (SGPL) significant decline in the operating profit margins since FY2021 primarily on account of a significant input cost pressure, which could not be entirely passed on to the customers through commensurate price hikes. Going forward, the company's ability to shore up its profit margins through revising product prices adequately, implementing various cost-control measures, reducing operating leverage by further increasing the scale of operations, and firming up of volume-based incentives from Kirloskar Oil Engine Limited (KOEL) would remain crucial from the credit perspective. The reaffirmation of the ratings continues to factor in the established track record of SGPL's management in the diesel generator (DG) industry. The ratings also factor in the company's established position as one of the leading original equipment manufacturers (OEM) for KOEL gensets for over 20 years in the 2.4-1010 kVA segment of gensets. The ratings further take comfort from its healthy market share of diesel generators in Tamil Nadu (TN), Andhra Pradesh (AP) and Telangana. ICRA notes that the generator industry is facing headwinds from the steadily improving power situation in India. However, the increasing trend of adoption of gensets in urban high-rise residential complexes is likely to support a modest growth in demand over the near-to-medium term. The ratings also favourably factor in the steady increase in business from the infrastructure equipment segment, especially transit mixers. ICRA notes that the company has generated revenue of Rs. 38.7 crore from the sale of transit concrete mixers in 11M FY2022, which is significantly higher than Rs. 14.6 crore generated from this segment in FY2021. This was largely aided by SGPL's tie-up with Ashok Leyland for manufacturing and mounting of transit mixers on the vehicle chassis. The ratings continue to reflect SGPL's healthy financial profile, characterised by a comfortable capital structure and healthy coverage metrics.

The ratings, however, remain constrained by the company's moderate scale of operations, its high product concentration risk, with ~84% of its revenues derived from diesel genset in 11M FY2022, and limitation of geographical presence in TN, AP and Telangana. The ratings are also constrained by SGPL's high supplier concentration risk, with the company essentially involved in manufacturing and distributing KOEL-branded diesel genset (where primary components such as engines and alternators are supplied by KOEL). Given the limited value addition involved in assembling of diesel gensets amid the intense competition prevalent in this cyclical industry, SGPL's profitability indicators remain low. Further, demand from DG sets remain vulnerable to the changing regulatory norms for tighter emission levels and a consequent increasing demand for alternative cleaner power back-up solutions. However, with the diversification of its product base in the infrastructure equipment industry, the product concentration risk is expected to reduce in the near term.

Key rating drivers and their description

Credit strengths

Extensive operating track record in genset manufacturing – Established in 1996, SGPL has a long operating history in the genset business. The management's vast experience, for over two decades, in the genset manufacturing business has helped SGPL in expanding its geographical reach within its regions of operations namely TN, AP and Telangana.

Revenue visibility through established relationship with KOEL and Ashok Leyland; revenues have witnessed an uptrend in FY2022 – SGPL is one of the leading OEMs for KOEL for the 2.4-1010 kVA genset segment. Its established relationship with KOEL, spanning over 20 years, has been positively reflected in SGPL's prominent presence in the diesel genset in TN, AP and Telangana (a ~21.55%[1] market share in FY2021). Additionally, the ratings derive comfort from the inflow of steady orders for transit mixers. It has been receiving orders for ~60-80 units per month from Ashok Leyland since January 2021 vide the contract for manufacturing and mounting of concrete mixers on their chassis. The revenue growth witnessed in FY2022 is expected to sustain over the near term due to established relationship with KOEL and Ashok Leyland.

Comfortable financial risk profile characterised by low gearing and comfortable debt coverage indicators – The company has external borrowing comprising solely of cash credit borrowing facilities of Rs.3.04 crore outstanding as on March 31, 2021. The short-term loan (loan against fixed deposit) of Rs.11.7 crore availed earlier was repaid in FY2021. The utilisation levels of fund-based limits remained low during the 12-month period ended in February 2022. This resulted in low debt levels and a comfortable capital structure with a gearing and Total Outside Liabilities/Tangible Net Worth of 0.1 times and 0.9 times, respectively as on March 31, 2021. Despite lower operating margins in FY2021 vis-à-vis FY2020, low external debt levels led to a modest interest coverage of 3.5 times in FY2021.

Credit challenges

Significant escalation in input costs adversely impacts profit margins – The company reported a lower operating profit margin of 0.9% in FY2021 against 2.9% in FY2020 due to higher prices of input costs, especially steel, which is the primary raw material required for manufacturing its products. ICRA notes that SGPL's profit margins are likely to remain subdued in the current fiscal as well on account of a further rise in steel prices in FY2022. Going forward, the company's ability to shore up its profit margins through revising its product prices adequately, implementing various cost control measures, reducing operating leverage by increasing the scale of operations, and firming up of volume-based incentives from KOEL would remain crucial from the credit perspective.

Modest scale of operation, exposure to high geographical and product concentration risks – The company's scale of operations is moderate and is characterised by high product and geographical concentration. Moderate scale of operations makes the company vulnerable to a period of sustained industry downturn. SGPL also faces high product concentration risk with a predominant share of its revenue (90% in FY2021 and 84% in 11M FY2022) coming from genset sales. However, it has been diversifying its product profile and is manufacturing various infrastructure equipment at present. It generates a substantial revenue from the infrastructure segment through sale of concrete mixers, which contributed 15% share of its revenue in 11M FY2022 against 8% in FY2021. Further, the genset sales are restricted to TN, AP and Telangana, resulting in limited geographical presence in the diesel genset segment. Also, it faces direct competition from Genlite Engineering Pvt. Ltd. (another KOEL's OEM), which has geographical presence in SGPL's addressable markets.

Operations exposed to inherent cyclicality prevalent in diesel genset industry – The company's revenue growth in the genset segment remains exposed to the inherent cyclicality prevalent in the capex undertaken in the industrial/retail sector. After a decline in FY2021 following the pandemic, SGPL's top line has improved in 11M FY2022 owing to revival in demand from the

[1] Source: SGPL

key end-user industries post normalisation of the Covid-19 related disruptions. Further, its efforts to diversify its product profile in the industrial segment is expected to reduce earnings volatility to an extent.

Dependence on KOEL's brand and key diesel genset component - The company mainly depends on KOEL for procurement of a predominant share of its key components such as engines and alternators. Further, the products are sold under KOEL's brand. However, the risk is slightly mitigated because of SGPL's established relationships with KOEL and co-branding privileges enjoyed by the entity. Further, SGPL's established distributor profile in the region supports the long-term sustainability of its relationship with KOEL.

Low profitability due to low entry barriers and stiff competition – The genset manufacturing industry is characterised by stiff competition with low entry barriers. SGPL competes with other OEMs of KOEL as well as other genset brands in its region of operations. The primary component of diesel gensets such as engines and controllers are manufactured by KOEL and the company's value addition to the final product remains relatively lower. Intense competition and high supplier concentration resulted in restricted pricing flexibility and hence its profitability is low, as reflected by its operating profit margin of 0.9% and return on capital employed (RoCE) of 3.1% in FY2021.

Liquidity position: Adequate

SGPL does not have any external term loan as on date. Moreover, the company has moderate working capital utilisation of 14% during the 14-month period ended in February 2022, leaving a comfortable liquidity headroom. As of end-February 2022, the company's cash credit limits of Rs. 7 crore remained entirely undrawn. In addition, it had cash and liquid investment of Rs. 6.36 crore as of end-February 2022. Therefore, the company's liquidity has been assessed as adequate.

Rating sensitivities

Positive factors – The outlook would be revised to Stable if the company is able to improve its profit margins and scale of operations.

Negative factors – Pressure on the company's ratings could arise if the company is unable to improve its profit margins going forward. The ratings could also come under pressure if there is any adverse change in the business relationship with KOEL/ Ashok Leyland, or if sizeable capex/investments weaken its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

Incorporated in 1996, SGPL is involved in the assembly and distribution of canopied diesel generator sets and is one of the leading generator OEMs for KOEL. The company offers genset in the wide range of 2.4-1,010 kVA rating. SGPL also has presence in the infrastructure equipment sector through transit mixers (own branded). The company has wind electric generators installed in the Coimbatore region (capacity of 2.4 MW). SGPL manufactures sheet metal parts and is equipped with an in-depth sheet metal conversion expertise, complemented by the next-generation machinery infrastructure. SGPL's manufacturing unit is Pondicherry. The manufacturing set-up includes a steel processing centre, equipped with a combination of semi and fully-automatic CNC machines. It has an in-house fabrication shop that produces highly precise fabricated components.

Key financial indicators

STPL (Standalone)	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	191.00	183.00
PAT (Rs. crore)	2.90	0.90
OPBDIT/OI (%)	2.90%	0.90%
PAT/OI (%)	1.50%	0.50%
Total Outside Liabilities/Tangible Net Worth (times)	1.10	0.90
Total Debt/OPBDIT (times)	2.90	2.60
Interest Coverage (times)	3.70	3.50

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	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					10-Mar-2022	10-Dec-2020	25-Sep-2019	-
1	Cash Credit	Long Term	7.00	3.04	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Bank Guarantee	Short Term	1.50	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
3	Untied Limits	Long Term / Short Term	1.50	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Bank Guarantee	Very Simple
Untied Limits	NA

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	7.00	[ICRA]BBB+ (Negative)
NA	Bank Guarantee	NA	NA	NA	1.50	[ICRA]A2
NA	Untied Limits	NA	NA	NA	1.50	[ICRA]BBB+ (Negative) / [ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable		

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