March 07, 2024

Suprajit Engineering Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	267.65	267.65	[ICRA]AA (Stable); reaffirmed
Long-term Fund-based – Term Loan	115.00	115.00	[ICRA]AA (Stable); reaffirmed
Short-term – Non-fund Based Working Capital Facilities	3.60	3.60	[ICRA]A1+; reaffirmed
Total	**386.25**	**386.25**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings outstanding on the bank lines of Suprajit Engineering Limited (SEL/the company) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by its strong business profile and liquidity position. The company has well-established relationships with all major domestic two-wheeler (2W) and three-wheeler (3W) original equipment manufacturers (OEMs) and enjoys healthy market share with them. Further, it has strong overseas presence, with ~52% of its consolidated sales in 9M FY2024 from international destinations. SEL enjoys healthy share of business in exports as well. Apart from this, the company's presence across segments is also diversified across 2W (28% of revenues in 9M FY2024), 3W/PV and CV (36% of revenues), non-automotive (17% of revenues) and aftermarket (19% of revenues) mitigating risks arising from downturns in specific segments to a large extent. SEL also has presence in multiple products such as mechanical control cables, halogen lamps, speedometers, digital clusters, throttle position controls and actuators, mitigates risks arising from product-specific technology changes to an extent.

The company's healthy scale of operations (Rs. 2,769.6 crore revenues in FY2023 and Rs. 2,117.2 crore revenues in 9M FY2024) along with double-digit operating margins (12.1% in FY2023 and 11.0% in 9M FY2024) have resulted in healthy accruals. The healthy accruals and limited debt-funded capex in the past have resulted in conservative capital structure and coverage metrics. The company's net gearing was 0.1 times while its net debt/OPBDITA was 0.3 times as on December 31, 2023. Further, it had sizeable, unencumbered cash and liquid investments of Rs. 613.7 crore as on December 31, 2023. With improvement in revenues and accruals, and in the absence of debt-funded capex plans going forward, ICRA expects SEL's debt metrics, liquidity and financial profile to remain strong over the medium term. However, there could be some moderation in revenues for SEL in the near-term, given the weak outlook for auto component exports in FY2025. Also, the performance of the LDC (Light Duty Cable) division which was acquired in April 2022, continues to be subdued on account of multiple factors including inability to pass-through cost inflation, relocation of its plant in China and consequent disruption to production during 9M FY2024, and depreciation in Hungarian currency against the US Dollar, amongst others. The extent of performance improvement of this division going forward remains to be seen and is 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 healthy accruals and moderate capex, despite the weak outlook for auto component exports in FY2025 and subdued performance of the LDC division.

Key rating drivers and their description

Credit strengths

Established customer profile; dominant market position in its products – The company enjoys well-established relationships with all major 2W and passenger vehicle (PV) OEMs in India. It enjoys a healthy market share of ~75% in the Indian two-wheeler (2W) and ~40% in the Indian four-wheeler (PV/CV) cables industry. Additionally, it maintains a wallet share of more than 75% with most of its key customers. Following the acquisition of the LDC division in April 2022, SEL also began supplying to key United States auto OEMs and enjoys healthy share of business with them. SEL's established relationships with its customers have resulted in sustained repeat orders, low customer churn rates and healthy new businesses over the years.

Healthy domestic – export mix; presence across multiple products and segments – The company derives a significant portion of its revenues from exports (~52% of revenues in 9M FY2024), which provides diversification and enables it to capture incremental business opportunities from overseas markets. Apart from this, the company's presence across segments is also diversified across 2W (28% of revenues in 9M FY2024), 3W/PV and CV (36% of revenues), non-automotive (17% of revenues) and aftermarket (19% of revenues) mitigating risks arising from downturns in specific segments to a large extent. SEL also has presence in multiple products such as mechanical control cables, halogen lamps, speedometers, digital clusters, throttle position controls and actuators. The presence in multiple mitigates risks arising from product-specific technology changes to an extent. The company is also unlikely to be materially impacted by transition to EVs.

Strong financial profile – The company's healthy scale of operations (Rs. 2,769.6 crore revenues in FY2023 and Rs. 2,117.2 crore revenues in 9M FY2024) along with double-digit operating margins (12.1% in FY2023 and 11.0% in 9M FY2024) have resulted in healthy accruals. The healthy accruals and limited debt-funded capex in the past have resulted in conservative capital structure and coverage metrics. The company's net gearing was 0.1 times while its net debt/OPBDITA was 0.3 times as on December 31, 2023. Further, it had sizeable, unencumbered cash and liquid investments of Rs. 613.7 crore as on December 31, 2023. With improvement in revenues and accruals, and in the absence of debt-funded capex plans going forward, ICRA expects SEL's debt metrics, liquidity and financial profile to remain strong over the medium term.

Credit challenges

Revenues and margins exposed to demand dynamics in overseas markets and cost inflation – The company derives ~52% of its consolidated revenues from the export markets. The relatively high export proportion could result in some moderation in revenues for SEL, 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 revenues. Also, while the ongoing disruption along the Red Sea route has resulted in a surge in container rates by 2-3x in January/February 2024 and sustained higher rates for the next few months could have a bearing on margins, SEL's margins are likely to remain range-bound over the medium term.

Subdued performance of the LDC (Light Duty Cable) division acquired in April 2022 –The LDC division, which was acquired in April 2022, reported operating losses of Rs. 3.6 crore in 9M FY2024, with its subdued performance being on account of multiple factors including inability to pass-through cost inflation, relocation of its plant in China and consequent disruption to production during 9M FY2024*,* and depreciation in Hungarian currency against the US Dollar, amongst others. The company is taking strategic initiatives on pass-through and low-cost manufacturing options including shifting part of the production to India. The extent of performance improvement remains to be seen and is a monitorable. ICRA notes that SEL's operating margins remain healthy despite contracting to 12.1% for FY2023 and 11% for 9M FY2024 from 14-15% during FY2019 to FY2022, because of the relatively weak performance of the LDC division.

Exposure to inherent cyclicality in the Indian automotive industry – SEL derived ~64% of its revenues in 9M FY2024 from sales to automotive OEMs and is, thus, exposed to the cyclicality inherent in the industry. However, the risk is mitigated to a certain extent by the company's continued diversification efforts by entering into newer segments in the non-automotive cables division in the US market and periodic addition/increase in wallet share with non-automotive customers.

Environmental and Social Risks

Environmental considerations – As an auto component supplier, SEL remains indirectly exposed to climate-transition risks due to its automotive OEM customers manufacturing products used across different fuel powertrains. Accordingly, its prospects are linked to the ability of its customers to meet tightening emission requirements. Further, it remains exposed to stringent environmental regulations regarding waste and pollution norms, which could entail capital investments. However, the company has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, through energy-saving efforts such as the adoption of energy-efficient fixtures/equipment and reducing waste generation.

Social considerations: Social considerations for SEL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical, as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by original equipment manufacturers (OEMs) due to defective auto parts could be a risk for the company. SEL is also exposed to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends such as preference for ridesharing. The company is also vulnerable to data security and data privacy risks. However, its ability to mitigate risks arising from the human capital issues in the past and history of no product recalls, provides comfort.

Liquidity position: Strong

SEL's liquidity is strong with sizeable cash balance and liquid investments of Rs. 613.7 crore as on December 31, 2023. Additionally, the company had undrawn working capital facilities of Rs. 88.8 crore as on December 31, 2023, at a standalone level. Its average working capital utilisation was ~56% of the sanctioned limits for the 12-month period ended December 2023. The anticipated business accruals are also likely to support SEL's liquidity. Against these sources of cash, the company has repayment obligations of Rs. 18.9 crore in Q4 FY2024 and Rs. 64.3 crore each in FY2025 and FY2026, respectively, on existing and sanctioned term loans. In relation to these sources of cash, SEL has moderate capex plans over the medium term, to be funded by internal accruals. Overall, ICRA expects SEL to meet its near-to-medium-term commitments through internal accruals and yet be left with a sufficient cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade SEL's long-term rating if the company demonstrates significant growth in its scale of operations and sustained improvement in profit margins, along with product diversification, leading to an improvement in its credit profile.

Negative factors – Downward pressure on the ratings could emerge if there is a substantial weakening in SEL's accruals, or higher capex or working capital stretch, causing a significant increase in debt levels or deterioration in the liquidity position on a sustained basis. Specific credit metrics that could lead to a rating downgrade include net debt/OPBDITA of more than 1.0x on a sustained basis.

Analytical approach

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

About the company

SEL is primarily engaged in manufacturing of mechanical control cables and halogen lamps for automotive and non-automotive applications and speedometers, digital clusters, throttle position controls and actuators for 2 wheelers and 3 wheelers. About 52% of SEL's consolidated revenues were from overseas markets in 9M FY2024. SEL has 22 manufacturing facilities (including a technology center in the UK) across the globe, with a cumulative capacity to manufacture 400 million cables and 110 million halogen lamps. The promoters hold a 44.6% stake (as on December 31, 2023) in SEL, while the remaining is held by public.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	1,840.5	2,769.6
PAT	173.1	152.1
OPBDIT/OI	14.3%	12.1%
PAT/OI	9.4%	5.5%
Total outside liabilities/Tangible net worth (times)	0.6	1.0
Total debt/OPBDIT (times)	1.3	2.1
Interest coverage (times)	18.2	9.4

Amount in Rs. crore; Source: Company, ICRA Research; Financial figures in this document are ICRA adjusted 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 include 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 December 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 07, 2024	Dec 15, 2022	Oct 20, 2022	Nov 9, 2021 Jul 27, 2021	May 8, 2020
1	**Term loans**	Long term	115.00	74.1	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**
2	**Working capital**	Long term	267.65	-	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**
3	**Non-fund Based**	Short term	3.60	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based – Term loan	Simple
Long-term Fund Based – Working capital	Simple
Short-term Non-fund Based – Working capital	Very 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**	FY2021	8.1%	FY2026	115.00	[ICRA]AA (Stable)
NA	**Cash credit**	NA	NA	NA	267.65	[ICRA]AA (Stable)
NA	**Short-term Non-fund based**	NA	NA	NA	3.60	[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
Suprajit Automotive Private Limited	100.00%	Full Consolidation
Suprajit Europe Limited	100.00%	Full Consolidation
Suprajit USA Inc.	100.00%	Full Consolidation
Trifa Lamps, Germany GmbH	100.00%	Full Consolidation
Luxlite Lamps SARL	100.00%	Full Consolidation
Suprajit Brownsville, LLC (USA)*	100.00%	Full Consolidation
Suprajit Mexico S de R.L. de C.V. (Mexico)*	100.00%	Full Consolidation
Suprajit Hungary Kft. (Hungary)*	100.00%	Full Consolidation
Shanghai Lone Star Cable Co., Ltd. (China)*	100.00%	Full Consolidation
Wescon Controls LLC*	100.00%	Full Consolidation

Source: Annual report; Note: Suprajit Brownsville, LLC (USA), Suprajit Mexico S de R.L. de C.V. (Mexico), Suprajit Hungary Kft. (Hungary), Shanghai Lone Star Cable Co., Ltd. (China) and Wescon Controls are subsidiaries of Suprajit USA Inc.

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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.

For more information, visit www.icra.in

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