



Sona Koyo Steering Systems Limited

	Amount	Rating Action
Term Loans	Rs 260.12 crore (PY: Rs 283.27 crore)	Upgraded to [ICRA]A+ (Stable)
Long-Term Fund Based Limits	Rs 78.85 crore	Upgraded to [ICRA]A+ (Stable)
Long-Term Unallocated Limits	R 62.32 crore (PY:Rs 39.17 crore)	Upgraded to [ICRA]A+ (Stable)
Short-Term Fund Based Limits	Rs 52.50 crore	[ICRA]A1 reaffirmed
Short-Term Non Fund Based Limits	Rs 55.00 crore	[ICRA]A1 reaffirmed
CP/STD	15.00	[ICRA]A1 reaffirmed

Source: ICRA

The long-term rating assigned to the Rs 260.12 crore* (PY: Rs 283.27 crore) term loans; Rs 78.85 crore long-term fund based limits and Rs 62.32 crore (PY: Rs 39.17 crore) unallocated limits of Sona Koyo Steering Systems Limited ('SKSSL' or 'the company') has been upgraded to [ICRA]A+ (pronounced ICRA A plus)[†] from [ICRA]A (pronounced ICRA A). The outlook on the long-term rating is 'Stable'.

The short-term rating assigned to the Rs 52.20 crore short-term fund based limits and Rs 55.00 crore short-term non-fund based limits of the company has been reaffirmed at [ICRA]A1 (pronounced ICRA A one). The short term rating assigned to the Rs 15.00 crore Commercial Paper / Short Term Debt Programme of the company has also been reaffirmed at [ICRA]A1 (pronounced ICRA A one).

The revision in the long-term rating takes into account the expected improvement in SKSSL's profitability metrics on account of cost efficiencies through increased localisation of internal parts, alternate sourcing of raw materials and backward integration initiatives. This, coupled with expected growth of the HPS business in the backdrop of new orders won; improving demand outlook and diversification into the non-passenger vehicle business segment is expected support the revenue growth of the company in the medium term. The ratings continue to draw comfort from the dominant position of SKSSL (including its joint venture JTEKT Sona Automotive India Limited or JSAI) in the domestic passenger car steering system industry with strong relationships and healthy SOB with leading OEMs, especially MSIL; technical collaboration and shareholding of JTEKT and increased acceptance of C-EPS by the domestic passenger vehicle manufacturers which is expected to drive future growth of the company. The ratings also continue to factor in positively the strong performance of JSAI over the last three years and the synergistic product offering of SKSSL and JSAI which has helped the company maintain its market position with domestic OEMs by securing presence in their new product launch plans. While export revenues of the indigenously developed product, EPAM remained muted in H1FY15, the revenue growth of the company has been supported by higher off-take by key customers and operating profit margin has been supported from benign raw material costs as well as benefits from backward integration and localisation initiatives.

The ratings continue to factor in SKSSL's significant dependence on JTEKT for technology; continuous need to upgrade technology in light of the technology intensive nature of products and significant capex undertaken by the company over the last few years (towards backward integration and localization). Moreover, with continued capex plans over the near term, the return indicators of the company are expected to remain muted. However, as domestic demand in the passenger vehicle industry recovers, SKSSL appears adequately positioned to capitalize on resultant growth opportunities as reflected in its improving market position in steering systems (along with JSAI),

* 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications



sufficient capacity buffer available and its backward integrated and localised operations supporting cost competitiveness.

SKSSL has sizeable debt repayment obligations in the near term which continue to weigh on the current ratio of the company. Nonetheless, the company's demonstrated ability to maintain adequate financial flexibility evident from available unutilised sanctioned working capital facilities and healthy cash accruals are expected to help the company sustain its credit profile over the medium term.

Company Profile

SKSSL was originally promoted as Sona Steering Systems Limited (Sona) by Dr. Surinder Kapur in June 1984. The company entered into a technical collaboration with Koyo Seiko Company Limited (Koyo), Japan (now JTEKT) in June 1985, to manufacture steering systems in India. SKSSL's product portfolio includes two distinct product lines viz. steering systems and driveline products. Steering systems include both manual as well as power steering systems (including both electric power steering systems and hydraulic power steering systems). The Driveline product portfolio includes case differentials, axle components, rear axle assemblies and propeller shafts. SKSSL supplies these products to various passenger vehicle OEMs including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra (M&M), Tata Motors Limited (TML), Toyota Kirloskar Motor Private Limited (TKML), etc. The company has manufacturing facilities located in Gurgaon, Dharuhera, Chennai and Sanand.

SKSSL currently has two subsidiaries viz. JTEKT Sona Automotive India Limited (JSAI) and Sona Fuji Kiko Automotive Limited (SFKAL). Sona Stampings Limited (SSL), an erstwhile 100% subsidiary of SKSSL, was merged with the company with effect from the appointed date i.e. 1st April, 2013. SKSSL sold-off its investments in non-strategic international businesses (namely Sona Autocomp Europe SARL, Sona Autocomp Inc., USA and AAM Sona Axle Private Limited) during FY 2011. Further, SKSSL ended its collaboration with Mando in FY 2013.

Recent Results

On standalone basis, SKSSL reported a Profit After Tax (PAT) of Rs 4.0 crore on an Operating Income (OI) of Rs 530.8 crore during H1 FY15. On consolidated basis, SKSSL reported PAT of Rs 21.6 crore on an OI of Rs 760.8 crore during the same period.

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