

Sunstar Precision Forge Limited

Rating	Amount	Rating Action
	Rs. crore	September 2016
Term Loans	9.50	[ICRA]BBB- (Stable); re-affirmed
Fund-based bank facilities	33.00	[ICRA]BBB- (Stable); re-affirmed
Non-fund based bank facilities	0.94	[ICRA]A3; re-affirmed
Unallocated	19.56	[ICRA]BBB- (Stable); re-affirmed
Total	63.00	

ICRA has re-affirmed its long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) and short-term rating of [ICRA]A3 (pronounced ICRA A three) on the Rs. 63.00 crore fund based and non-fund based bank facilities of Sunstar Precision Forge Limited (SPFL)[†]. The outlook on the long term rating is 'Stable'.

ICRA's rating re-affirmation takes into account SPFL's satisfactory performance in FY2016 with healthy volume growth leading to 17% increase in the operating income. The company was able to withstand the slowdown in demand from its Brazil-based customers by getting higher orders from other customers. The improvement in domestic demand in the Commercial Vehicle (CV) segment as well as exports supported profits. The ratings continue to favourably factor in SPFL's established customer base and increasing proportion of machined products in the sales mix. Furthermore, its pass through arrangement with its customers for major variability in raw material prices and foreign exchange fluctuations partly mitigates its vulnerability to profitability.

The rating, however, continues to be constrained by the concentration of the company's product offerings to the commercial vehicles segment, which exposes it to associated cyclical business downturns. Furthermore, its customer concentration risk continues to remain high with SPFL's top three customers accounting for 47% of its revenues in FY2016. Additionally, the rating is constrained because of the company's high working capital requirements owing to a high inventory holding period (due to a large assortment of products) and high receivable levels, because of a large credit period offered to its major overseas clients.

Going forward, the company's ability to diversify to other vehicle segments, acquisition of new customers resulting in improvement in scale in a profitable manner, as well as managing its working capital optimally shall be the key rating sensitivities.

Company Profile

SPFL is engaged in forging and machining auto components for various auto ancillary companies in India and abroad. SPFL's product portfolio has over 70 products including steering arms, companion flanges, crown pinion forgings, shifter forks, bottom clamps, brake adapters and gear blanks. The company's manufacturing facility at Greater Noida, Uttar Pradesh, has forging as well as machining capabilities. The company also has an in-house tooling facility for the production of moulds and dyes.

Recent Results

The company reported a net profit of Rs. 1.92 crore on an operating income of Rs. 122.39 crore in FY2016, as against a net profit of Rs. 1.37 crore on an operating income of Rs. 96.38 crore in the previous year.

September 2016

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



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