

July 29, 2019

Comstar Automotive Technologies Private Limited: [ICRA]AA- &/[ICRA]A1+ & reaffirmed, ratings continue to remain under watch with developing implications

Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund based	35.00	35.00	[ICRA]AA- &; reaffirmed, ratings continue to be on watch with developing implications
ST Non fund based	12.00	12.00	[ICRA]A1+ &; reaffirmed, ratings continue to be on watch with developing implications
Short term Sub limit	(40.00)	(40.00)	
Total	47.00	47.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation draws comfort from CATPL's (Comstar Automotive Technologies Private Limited) healthy business and financial position in FY2019. On the business front, the company has established presence in the global starter motor market; reputed client base comprising of global and Indian OEMs; the company's strong R&D capabilities; and healthy product pipeline. In terms of its financial position, CATPL's consolidated revenues grew at a healthy pace in FY2019, aided by new orders and organic growth and its margins continued to be strong. CATPL remained net debt negative over the last several years supported by its healthy accruals and relatively modest capex, and consequently has conservative debt metrics. The company continued to hold healthy cash and liquid investment balances as on March 31, 2019 and its liquidity position remains comfortable. CATPL's consolidated financial position is expected to remain comfortable going forward as well, despite sizeable capex plans over the medium term and anticipated reduction in margins from current levels as a consequence of the company's business diversification measures.

However, the ratings are constrained by CATPL's high customer and geographic concentrations – with the top customer and top two geographies contributing to majority of CATPL's revenues; while the concentration is likely to reduce further going forward with execution of the recently won orders, the dependencies on the top customer and key geographies are expected to remain over the medium term. Also, CATPL faces intense competition from industry incumbents like Bosch, Denso, Valeo and Mitsubishi Electric – who are much larger players compared to the company. The company sales is correlated to the growth in the domestic and global auto industry and hence would be impacted in FY2020 by the ongoing muted demand scenario; however, the revenue growth would be better than the industry because of the anticipated new order execution. By virtue of CATPL's volumes being strongly correlated to the sales volumes of the models caters to, transitions/consolidation of engine platforms could lead to sales volatility. ICRA also notes that the company's revenues and profits are susceptible to unfavourable forex movements, although its effective hedging mechanism mitigates the risk to a large extent. Further, the company has been having high dividend pay-outs in the last few years and will continue to do so going forward.

Blackstone Group LP (Blackstone) was directly holding 100% stake in Comstar Automotive Technologies Private Limited (Comstar) till July 04, 2019. Effective July 05, 2019, there has been an internal structuring, whereby, Sona BLW Precision Forgings Limited (Sona BLW) – recently acquired by Blackstone - has acquired 100% stake in Comstar. Post the transaction, Comstar remains an indirect subsidiary of Blackstone. However, as against entire stake of Comstar being held by Blackstone earlier, the ultimate shareholding in Comstar will now mirror the shareholding of Sona BLW – wherein

Blackstone has majority stake and minority stake is held by the erstwhile promoters of the Sona Group. Also, the company has indicated plans for amalgamation of Sona BLW and Comstar into a single entity in the next six months to one year.

Key rating drivers

Credit strengths

Healthy financial profile – CATPL's financial profile remains comfortable, characterized by healthy revenue growth and margins in FY2019; conservative capital structure; and comfortable liquidity position. The company continues to be net debt-negative with sufficient cash and liquid investment balances. ICRA expects CATPL's financial profile to remain comfortable over the medium term, despite its sizeable capex and anticipated margin reduction as a consequence of its business de-risking measures.

Established presence in the global starter motor market; strong R&D capabilities – CATPL is a well-known name in the global starter motor market, along with players like Bosch, Denso, Mitsubishi Electric and Valeo. By virtue of its lineage (part of Ford and Visteon) and ongoing research in its state-of-the-art R&D facility in Chennai, the company possesses strong product development capabilities and CATPL has a strong product pipeline in Internal Combustion Engines (ICE), hybrids and Electric Vehicles (EV).

Established global client relationships; recent contract wins from global OEMs likely to support higher-than-industry growth – The company has several global and Indian auto OEMs as its customers and enjoys dominant market share with most customers in specific engine platforms. The company's revenue pie in FY2019 had healthy share from execution of new orders, in addition to organic growth. Also, CATPL has a healthy pipeline of new orders, from existing and new technologies, to be executed over the near to medium term.

Credit challenges

Relatively high customer and geographic concentration – CATPL has relatively high customer concentration, with the top customer constituting over four-fifths of the company's consolidated revenues in FY2019. In terms of geographies, North America accounts for around half the revenues, while the remaining is primarily from Europe and Asia. ICRA notes that the company's client concentration is likely to reduce going forward, with increase in orders from other OEMs pursuant to de-risking strategy undertaken by the company. Nevertheless, the dependence on the top customer and North America/Europe is likely to be significant over the medium term.

Stiff competition from larger and financially stronger global players; volume growth dependent on success of OE models catered to – CATPL is a relatively modest-sized player, compared to giants such as Bosch, Mitsubishi Electric, Valeo and Denso, and witnesses relatively high pricing and product competition from these players. Also, by virtue of presence only in certain platforms, the company's volumes are strongly correlated to the sales volumes of the models caters to. The company's revenues have been impacted in the past by transitions/consolidation of vehicle engine platforms of its key customer.

Muted auto demand to impact CATPL's revenues in FY2020 akin to other players in the industry – CATPL derives over four-fifths of its FY2019 revenues from exports, primarily from Europe and North America and the remaining from domestic segment. Thus, CATPL's revenues would be vulnerable to the ongoing muted demand scenario in the domestic and global auto industry. However, the healthy order pipeline from existing and new customers is expected to support revenues, going forward.

Relatively high dividend pay-outs compared to profits – CATPL has had high dividend pay-outs over the last three years compared to its net profits and this is expected to remain so going forward as well. Nevertheless, CATPL's low gross debt levels consisting of only working capital borrowings and presence of healthy cash and liquid investment balances (resulting in net debt negative position) provides comfort. The company is expected to remain net debt negative over the medium term.

Revenues and profits vulnerable to forex movements – The company has relatively high forex exposure by virtue of imports and exports. CATPL has an effective hedging mechanism for its net forex exposure and has been able to mitigate adverse forex impact on its revenues and profits to a large extent in the past. Nevertheless, it continues to remain susceptible to any unfavourable USD/Euro movements against the INR.

Liquidity Position:

CATPL's liquidity position has remained comfortable with positive fund flow from operations in FY2019. Its average working capital utilization for the twelve months ended April 2019 stood at less than one-third of its sanctioned limits. CATPL has no long-term debt and consequently no fixed repayment obligations. Also, the company's sizeable capex plans over the medium term towards maintenance and addition of new lines, is likely to be funded through internal accruals. The company continued to maintain healthy cash and liquid investment balances as on March 31, 2019 akin to previous years. Though the dividend pay-outs have been on the higher side for the past few years, the company intends to only distribute dividend only after providing for its capex and other requirements, and this provides some comfort.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for auto component suppliers
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidation

About the company:

Comstar Automotive Technologies Private Limited (CATPL/the company) is into the business of manufacturing starter motors, starter motor kits and alternators for automotive applications. CATPL is a medium-sized player in the auto component industry with a production capacity of Rs. 2.0 million starter motors and 0.1 million alternators per year in India and 0.5 million starter motors in USA.

CATPL commenced operations in 1998 as a subsidiary of Visteon Corporation and subsequently became Visteon's sole production facility in Asia for its starters and alternators. During a restructuring activity conducted by Visteon Corporation, the company (erstwhile Visteon Powertrain Corporation) was acquired by Comcraft Group and Argyle Street Management in FY2008. During FY2014, CATPL setup a WOS in USA certain supplies in the continent. In April 2018, Blackstone LP (Blackstone) acquired 100% stake in CATPL from Comcraft group and Argyle Street Management. In July 2019, there was an internal structuring whereby Blackstone sold its entire stake in CATPL to one of its recently acquired subsidiary companies - Sona BLW Precision Forgings Limited (Sona BLW). Post this transaction, CATPL will remain an indirect subsidiary on Blackstone. However, as against entire stake of CATPL being held by Blackstone earlier, the ultimate shareholding in CATPL will now mirror the shareholding of Sona BLW – wherein Blackstone has majority stake and minority stake is held by the erstwhile promoters of Sona Group. Also, the company has indicated plans for amalgamation of Sona BLW and CATPL into a single entity in the next six months to one year.

Key financial indicators (Audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	616.0	714.6
PAT (Rs. crore)	108.3	141.1
OPBDIT/OI (%)	29.6%	30.7%
RoCE (%)	56.5%	64.7%
Total Debt/TNW (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.2	0.1
Interest coverage (times)	107.2	169.0

Source: Company, OI – Operating income, PAT – Profit after Tax, ROCE – return on capital employed, TNW – Tangible net worth, OPBDIT – Operating profit before depreciation, interest, tax.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount O/s (Rs Crore)	Date & Rating Jul 2019	Date & Rating in FY2019	Date & Rating in FY2017	Date & Rating in FY2016
						Apr 2018	Nov 2016	Oct 2015
1	Fund based	Long Term	35.00	-	[ICRA]AA-&	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2	Non-fund based	Short Term	12.00	-	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	ST- sublimit	Short Term	(40.00)	-				
4	ST Fund based	Short term	-	-	-	-	[ICRA]A+(Stable)/ [ICRA]A1+	[ICRA]A+(Stable)/ [ICRA]A1+
5	LT/ST unallocated	LT/ST	-	-	-	-		

& - under rating watch with developing implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
CC	NA			35.00	[ICRA]AA-&
LC				12.00	[ICRA]A1+&
WCDL/EPC/BG - sublimit				(40.00)	

Source: Comstar Automotive Technologies Private Limited , & - Ratings under watch with developing implications

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Comstar Automotive Technologies Private Limited	100%	Full Consolidation
Comstar Automotive Technology Services Private Limited	100%	
Comstar Automotive USA LLC	100%	

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