Suprajit Engineering Limited

March 15, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	202.00	217.65	[ICRA]AA (Stable); reaffirmed
Term Loans	63.72	33.27	[ICRA]AA (Stable); reaffirmed
Non-fund based facilities	1.50	1.50	[ICRA]A1+; reaffirmed
Total	**267.22**	**252.42**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings takes into account the strong market position of Suprajit Engineering Limited (SEL) in the Indian two-wheeler and three-wheeler cable industry where it commands 70-75% market share, and its well-established relationships with all the major two-wheeler and three-wheeler OEMs in India. While it commands a dominant position in the Indian 2W and 3W industry, the company also has a healthy market share of ~25-30% in the Indian four-wheeler industry. The ratings also continue to favourably factor in the healthy growth of 15.2% during H1FY2019 under Wescon Controls (SEL's wholly-owned subsidiary), one of the largest manufacturers of outdoor power equipments (OPE) control cables in North America and the company's well-established relationships with reputed four-wheeler OEMs in the European markets which has supported its exports over the past few years. The company has won several new businesses in the cable division during FY2019 for newer platforms to be launched by the four-wheeler OEMs in the European markets during FY2020 and FY2021. This is expected to support the company's export prospects going forward. The ratings continue to be supported by the company's strong financial profile which is characterized by healthy revenue growth on a y-o-y basis of 14.4% during H1FY2019 and 13.1% during 9MFY2019, moderate capital structure with gearing of 0.5 times, and sizeable cash and liquid investments of Rs. 135.6 crore as on September 30, 2018.

The ratings, however, are constrained by the company's subdued performance under the Phoenix Lamps division (PLD) on account of migration of its key two-wheeler customers to LED technology for their base models during H1FY2019. The performance under PLD was also affected owing to subdued exports under its subsidiaries, Luxlite Lamps S.A.R.L, Luxembourg (Luxlite) and Trifa Lamps GmbH, Germany (Trifa), wherein, few customers had migrated to other suppliers owing to the unavailability of newer designs of H7 lamps. However, post the commissioning of the new H7 line towards the end of FY2017, the company has been able to add back few of those customers and the capacity utilization of the new H7 line had improved to ~55% YTD January 2019 from 25% as on March 31, 2017. With further ramp-up expected in H7 line capacity utilization going forward, exports under PLD are expected to improve going forward. ICRA also notes the decline in operating margins during H1FY2019 on account of increase in employee costs, increase in raw material prices, imposition of tariffs of 10.0% on Chinese imports in USA (post which the local suppliers in USA hiked the prices of cable components) and the company's inability to pass on the price increase during the same period.

The ratings also remain constrained by SEL's exposure to the inherent cyclicality in the Indian automotive industry, particularly the two-wheeler segment, which accounted for ~30.7% of revenues for the company during FY2018. Nevertheless, the revenue concentration has declined gradually over the years with increasing revenue share from the non-automotive segment (21.2% in FY2018) and exports under the four-wheeler segment (~9% of revenues during FY2018). Going forward, the company's ability to improve its scale of operations and margins, maintain its strong financial profile and expand its market share in the domestic PV market will be key rating sensitivities. Ability to transition successfully into the newer technologies prevalent in automotive lighting are critical for the company's future prospects. The company has cumulative capex plans of Rs. 100.0 crore (including maintenance capex of Rs. 26.0 crore) during FY2019 and FY2020 for setting up two greenfield facilities in Narsapur, Karnataka and Doddaballapur, Karnataka to increase cables capacities. The aforementioned capex is expected to be funded through terms loans of Rs. 65.0 crore and and internal accruals and cash and liquid investments. ICRA will continue to monitor the impact of increase in fixed expenses on operating margins and return on capital employed (RoCE) going forward.

Outlook: Stable

ICRA believes SEL will continue to benefit from its dominant market position in the domestic two-wheeler and three-wheeler cables industry, healthy market position in the OPE cables industry in North America, experienced promoters, robust manufacturing capabilities and its longstanding, well-established relationship with its customer base in the domestic and export markets. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if any weakness / adverse regulatory changes, continued volatility in raw material prices or additional debt-funded capex results in weakened liquidity and cash accruals being lower than ICRA's expectations.

Key rating drivers

Credit strengths

- **Longstanding relationships with major OEMs aids long-term business stability**: The company has longstanding, well established relationships with all the major two-wheeler and three-wheeler OEMs in India, enjoying strong wallet share with most of its customers. While the company commands a strong market share of 70-75% in the Indian 2W and 3W industry, it also enjoys a healthy market share of ~25-30% in the Indian four-wheeler industry. The company also has well established relationships with reputed four-wheeler OEMs in the European markets and has won several new businesses during FY2019 for the supply of control cables for newer platforms to be launched during FY2020-FY2021. With acquisition of Wescon during FY2017, the company is now one of the largest producer of non-automotive control cables in USA. Additionally, the company has increased its focus towards entering newer verticals (such as power sports vehicles (PSV), construction, agriculture) in the non-automotive cables segment which had resulted in healthy growth of 15.2% under Wescon during H1FY2019. These are expected to continue supporting the business prospects of the company going forward.

- **Improvement in segmental and geographical diversification on the back of recent acquisitions:** With the acquisition of Phoenix Lamps Limited during FY2016, the company gained foothold under lighting in the aftermarket segment in the Europe and India and with the acquisition of Wescon controls during FY2017, the company increased its presence in the North American market under non-automotive control cables segment.

Consequently, the revenue contribution from the two-wheeler segment has reduced to 32.3% during H1FY2019 from 52.8% during FY2015 and exports have increased to 40.7% in H1FY2019, up from 18.3% in FY2015.

- **Financial profile characterized by healthy revenue growth, moderate capital structure and sizeable cash and liquid investments**: SEL's financial profile is characterized by healthy revenue growth of 14.4% and 13.1% during H1FY2019 and 9MFY2019 respectively, moderate gearing of 0.5 times as on September 30, 2018 and moderate interest coverage of 8.1 times in H1FY2019. The company's working capital utilization as a percentage of sanctioned limits remained moderate at an average of 54.4% for the 12 month period ended January 2019. The company also has sizeable cash and liquid investments of Rs. 135.6 crore as on September 30, 2018 which will meet its growth capital requirements going forward.

Credit challenges

- **Migration of two-wheeler OEMs to LED for their base models and subdued exports of H7 lamps under Trifa and Luxlite affects the revenues under the lighting division**: The sales under PLD witnessed contraction by ~6.3% during H1FY2019 on account of key customers of the company in the domestic markets migrating to LED technology for their base models. The performance was also affected owing to subdued exports under its subsidiaries, Luxlite and Trifa, wherein, few customers had migrated to other suppliers owing to the unavailability of newer designs of H7 lamps. However, post the commissioning of the new H7 line towards the end of FY2017, the company has been able to add back few of those customers and the capacity utilization of the new H7 line had improved to ~55% YTD January 2019 from 25% as on March 31, 2017. With further ramp-up expected in H7 line capacity utilization going forward, exports under PLD are expected to improve going forward. However, with increasing trend of the two-wheeler and three-wheeler OEMs migrating to LED and no significant investments being made the company in that space , the performance of the company in the domestic markets will be a key monitorable. Future, automotive lighting and electronics are rapidly evolving areas and the company's ability to continuously invest in R&D or enter into technological agreements to support such growth is critical.

- **Imposition of tariff on Chinese imports and upfront business development expenses in USA affects the margins during H1FY2019; expected to improve going forward :** The imposition of tariffs of 10.0% on Chinese imports by USA, led to local suppliers hiking prices of cable components, which in turn resulted in increased raw material costs for the company for its manufacturing base located in Wichita, Kansas ,USA. Further, with upfront business development expenses for entering into newer verticals under the non-automotive cable division in USA and increase in minimum wages in India, the employee expenses increased during H1FY2019. Consequently, the consolidated OPMs declined to 14.7% in H1FY2019 from 16.9% in FY2018. However, with increase in commodity prices passed on to few of its customers in Q3FY2019, margins are expected to improve going forward.

- **Sizeable capex plans over FY2019 and FY2020**: The company has cumulative capex plans of Rs. 100.0 crore during FY2019 and FY2020 primarily for setting up two greenfield facilities in Karnataka, one each at Doddaballapur and Narsapur to increase the cables capacity by 50 million cables to 300 million cables. The impact on margins on account of increase in fixed costs necessary to run new facilities, which are expected to be commissioned during Q1FY2020, would remain a key credit monitorable.

- **Exposure to the inherent cyclicality in the Indian automotive industry**: During FY2018, SEL derived ~49% of its revenues from two-wheeler, three-wheeler and four-wheeler segments in the domestic markets and is thus exposed to the cyclicality inherent in the automotive industry. However, the risk is mitigated to a certain extent by the continued diversification efforts of the company to enter into newer segments in the non-automotive cable division in US market (21.2% of revenues in FY2018) and healthy growth expected under four-wheeler cable exports (~9% of revenues in FY2018) to European market going forward.

Liquidity Position:

SEL's liquidity has remained adequate with positive cash flow from operations in FY2018 and H1FY2019. The company has cash and liquid investments of Rs. 135.6 crore and undrawn lines of cash credit of Rs. 61.3 crore as on September 30, 2018, which lends support to the liquidity profile of the company. The company's cumulative capex of Rs. 100.0 crore over FY2019 and FY2020, which is expected to be funded through a mix of term loans of Rs. 65.0 crore and internal accruals and cash and liquid investments. The company is expected to have term loan repayment obligations of Rs. 63.7 crore, Rs. 59.8 crore and Rs. 46.7 crore during FY2019, FY2020 and FY2021 respectively. ICRA expects SEL's liquidity position to remain healthy over the medium term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating methodology for Auto components industry
Parent/Group Support	NA
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the company

About the company:

Suprajit Engineering Limited is primarily engaged in manufacturing of mechanical control cables for automotive and non-automotive sectors, speedometers for two-wheelers and halogen lamps for two-wheelers, three-wheelers, passenger cars, commercial vehicles & off road applications. Under cables division, SEL's product profile comprises a wide variety of control cables like brake cables, clutch cables, throttle cables, starting cables, gear-shifter cables, choke cables, tachometer cables, window regulator cables, mirror cable assemblies, seat recliner cables and latch release cables. Under halogen lamps, SEL's product profile comprises fog lights, side position lights, front lights, position and parking lights, dashboard and interior lights, brake lights lamp, trunk lights, front indicator light, rear parking light, number plate light, rear indicator light, stop lights, low beam/high beam lights etc.

SEL is presently the largest manufacturer of automotive cables in India with capacities to manufacture about 250 million cables per annum. The company is also the largest manufacturer of halogen lamps with capacities to manufacture about 87 million halogen lamps per annum.

SEL's manufacturing units are spread across the country. SEL has 17 manufacturing facilities in India and one in USA, Mexico and United Kingdom which also operates as a technology centre. SEL's customer profile comprises of reputed OEMs in the 2W space such as Bajaj Auto Limited (BAL), Hero MotoCorp Limited (HMCL), TVS Motor Company Limited (TVS) and Honda Motorcycle & Scooter India (HMSI) among others. In the 3W segment, SEL caters to customers such as Atul Auto Limited (AAL), Piaggio Vehicles Private Limited (PVPL) and TVS while its customers under the 4W segment include Mahindra & Mahindra (M&M), BMW AG (BMW) and Volkswagen AG (VW) among others. Under its non-automotive vertical, the company's customers include John Deere (JD), Whirlpool Corporation (WC), Kubota Corporation (Kubota) and Club Car LLC (Club car).

Key financial indicators (Consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	1,202.8	1,431.1
PAT (Rs. crore)	113.7	138.5
OPBDIT/OI (%)	17.2%	16.9%
RoCE (%)	22.4%	22.1%
Total Debt/TNW (times)	0.7	0.5
Total Debt/OPBDIT (times)	1.8	1.4
Interest coverage (times)	6.8	8.4

Source: company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on March 31, 2018	Date & Rating March 2019	Date & Rating in FY2018 December 2017	Date & Rating in FY2018 July, 2017	Date & Rating in FY2017 May, 2016	Date & Rating in FY2017 April, 2016	Date & Rating in FY2016 May, 2015
1	Fund Based – Cash Credit	Long Term	217.65	129.70	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Term loans	Long Term	33.27	33.27	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Non-Fund based – LC/BG	Short Term	1.50	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	9.1%-11.1%	-	217.65	[ICRA]AA (Stable)
NA	Term Loans	FY2016	9.9%-10.4%	FY2020	33.72	[ICRA]AA (Stable)
NA	LC/BG	NA	-	-	1.50	[ICRA]A1+

Source: company

Annexure-2: 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
Wescon Controls LLC[1]	100.00%	Full Consolidation

[1] *Subsidiary of Suprajit USA Inc*

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About ICRA Limited:

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