December 15, 2022

Suprajit Engineering Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	217.65	267.65	[ICRA]AA(Stable); reaffirmed/assigned
Long-term Fund-based – Term Loan	40.00	115.00	[ICRA]AA(Stable); reaffirmed/assigned
Short-term – Non-fund Based Working Capital Facilities	2.10	3.60	[ICRA]A1+; reaffirmed/assigned
Total	**259.75**	**386.25**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings takes into account Suprajit Engineering Limited's (SEL) strong market position and well-established relationships with all major domestic two-wheeler (2W) and three-wheeler (3W) original equipment manufacturers (OEMs). The company has a healthy market share of ~65% in the Indian 2W and ~30-35% in the Indian four-wheeler (4W) cables industry. SEL witnessed healthy revenue growth of 12.2% in FY2022 on the back of strong uptick in volumes across all the division, particularly from the non-automotive (SENA) cable division and automotive cable division, aided by improved demand scenario. During April 2022, SEL completed the acquisition of Light Duty Cable (LDC) business unit from Kongsberg Automotive ASA. The acquired business consists of cable business, supplying primarily to the US, Europe and APAC in the automotive and off-highway applications segments. The company's YoY revenue growth stood at 59.2% in H1 FY2023 including Rs. 328.6 crore revenue from the LDC division. Post LDC's acquisition, SEL's revenue contribution from exports increased to ~53% in H1 FY2023 from 38% in FY2022. The ratings favourably factor in the company's diversified segmental and geographical presence, supported by LDC's acquisition along with its wholly-owned subsidiaries, Wescon Controls (one of the largest manufacturers of outdoor power equipment (OPE) control cables in North America) and Phoenix Lamps Limited (a halogen bulb manufacturing company with an aftermarket presence in Europe and India).

The ratings remain constrained by the subdued performance of the LDC division. SEL's operating margins contracted 460 bps to 9.7% during H1 FY2023 from 14.3% during FY2022, impacted primarily by the operating loss of Rs. 8.8 crore posted by the newly acquired LDC division. The subdued performance of LDC was on account of delay in passing on price increases to customers, change in management, significant price increases given to vendors, key personnel cost, China's lockdown, and 30% depreciation in the Hungarian currency against the Dollar. The company is taking strategic initiatives to renew global contracts and is currently in the process of passing on the incremental raw material cost to its customers. Nonetheless, the consolidated margin improved to 11.0% in Q2 FY2023 from 8.8% during Q1 FY2023 on the back of improved in LDC margin to -1.2% in Q2 FY2023 from -4.5% in Q1 FY2023. LDC division witnessed recovery in margins on a QoQ basis on the back of improvement in margin in Mexico (59% contribution) and China operation. SEL is likely to post healthy revenue growth in FY2023 given the revival in demand across markets, its strong market position, healthy diversification, continued efforts to increase its wallet share and add new products and customers to its portfolio, and acquisition of LDC. SEL's ability to pass on the incremental raw material cost to its customers and turnaround of the LDC division will remain a key monitorable. The LDC division was acquired at a cost of $42.0 million (~Rs. 336.0 crore), funded partially by $30.0 million (~Rs. 240.0 crore) ECB while the balance was funded from existing cash balances. The external term loans outstanding increased to Rs. 265.8 crore as on September 30, 2022, from Rs. 30.9 crore as on March 31, 2022, leading to slight moderation of debt coverage metrics. However, ICRA expects the debt metrics to improve on the back of healthy accruals and scheduled debt repayment, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that SEL will continue to benefit from its dominant market position in the domestic 2W and 3W/ 4W cables industry, its healthy market position, its diversified geographical and segmental presence, its established relationship with its customer base in the domestic and export markets.

Key rating drivers and their description

Credit strengths

Established relationships with major OEMs aid long-term business stability – The company enjoys well-established relationships with all major 2W and passenger vehicle (PV) OEMs in India. It enjoys a strong wallet share of ~65% (2W) and ~30-35% (PV) in the automotive cables market and has a wallet share of more than 75% with most of its key customers. With the recent acquisition of the LDC division in April 2022, SEL now also supplies to key US auto OEMs. The LDC division is expected to be a complimentary fit in SEL's manufacturing footprint, customer base, product and technology aiding its business prospects.

Healthy revenue growth momentum in FY2022 and H1 FY2023; expected to continue – During FY2022, revenues grew 12.2% on the back of strong uptick in volumes across divisions. The non-automotive (SENA) cable division grew by 24% coupled with healthy growth of 11% in the automotive cable division. Further, the YoY revenue growth stood at 59.2% with revenue of Rs. 1361.2 crore in H1 FY2023 including Rs. 328.6 crore revenue from the LDC division. Going forward, ICRA expects SEL's revenue growth momentum to remain intact aided by automotive industry recovery and improved demand scenario along with diversified customer base and product offerings. Strong wallet shares with most of the domestic OEMs (TVS, Bajaj, Hero, etc) and key global OEMs will continue to support the company's business prospects.

Diversified geographical and segmental presence through global footprint – With the acquisition of Phoenix Lamps in FY2016, SEL gained a foothold in lighting in the automotive aftermarket segment in Europe and India. Moreover, with the acquisition of Wescon in FY2017, the company increased its presence in the North American market in the non-automotive control cables segment. Further, the recent acquisition of LDC division in April 2022 gave the company access to key US auto OEMs and non-automotive market. Consequently, the revenue contribution from the 2W segment reduced to ~26% in H1 FY2023 from ~53% in FY2015 while exports increased to ~53% in H1 FY2023 from ~18% in FY2015. Further, addition of non-automotive cable sales from the LDC division led to diversification of the business to non-automotive segment. Going forward, ICRA expects SEL to benefit from its diversified presence across geographies and segments.

Credit challenges

Subdued performance of newly acquired LDC division – SEL's operating margins contracted 460 bps to 9.7% during H1 FY2023 from 14.3% during FY2022, impacted primarily by the operating loss of Rs. 8.8 crore posted by the newly acquired LDC division. The subdued performance of LDC was on account of delay in passing on price increases to customers, change in management, significant price increases given to vendors, key personnel cost, China's lockdown, and 30% depreciation in the Hungarian currency against the Dollar. Nonetheless, the consolidated margin improved to 11.0% in Q2 FY2023 from 8.8% during Q1 FY2023 on the back of improved in LDC margin to -1.2% in Q2 FY2023 from -4.5% in Q1 FY2023. The LDC division witnessed recovery in margins on a QoQ basis on the back of improvement in margins in the Mexican (59% contribution) and Chinese operations. The company is involved in the process of passing on the incremental raw material cost to its customers across all locations with a lag. Turnaround of the LDC division will remain a key monitorable, going forward.

Exposure to inherent cyclicality in Indian automotive industry – SEL derived ~60% of its revenues in H1 FY2023 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 (~26% of revenues in H1 FY2023) in the US market and its constant effort to increase its wallet share with existing automotive OEMs as well as through the addition of new customers. SEL's well-established relationships with major OEMs also partly mitigate the risk.

Moderation in debt protection metrics post LDC acquisition – During April 2022, SEL completed the acquisition of the LDC business unit from Kongsberg Automotive ASA. It was acquired at a cost of $42.0 million (~Rs. 336.0 crore), funded partially by $30.0 million (~Rs. 240.0 crore) ECB. The external term loans outstanding increased to Rs. 265.8 crore as on September 30, 2022, from Rs. 30.9 crore as on March 31, 2022, leading to slight moderation of debt coverage metrics. However, ICRA expects the debt metrics to improve on the back of healthy accruals and scheduled debt repayment, going forward.

Environmental and Social Risks

Environmental considerations: Even though SEL is not directly exposed to climate transition risks from the likelihood of tightening emission control requirements, with the bulk of its portfolio being used across different fuel powertrains, its automotive manufacturing customers remain highly exposed to the same. Accordingly, SEL's prospects remain linked to the ability of its customers to meet tightening emission requirements. The company may need to invest materially to develop products for electric vehicles (EVs), even as the EV transition is likely to be only gradual. As per disclosures in its FY2022 annual report, the company has initiated a sustainability initiative for going green and minimising its impact on the environment.

Social considerations: SEL, like most automotive component suppliers, has high dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. The company's FY2022 annual report indicates that it has demonstrated its commitment to Health, Safety and Environmental (HSE) protection by establishing an HSE policy, and all the new manufacturing plants have been certified for Environmental Management System (ISO 14001:2015) during the year. The company's efforts towards the same have also resulted in reduction of total lost time due to injuries in FY2022.

Liquidity position: Adequate

SEL's liquidity is adequate with a cash balance and liquid investments of Rs. 377.1 crore as on September 30, 2022. Additionally, the company had undrawn working capital facilities of Rs. 114.4 crore as on August 31, 2022. Its average working capital utilisation was 56% of the sanctioned limits for the 12-month period ended August 2022. The company had external term loans outstanding of Rs. 265.8 crore on its books as on September 30, 2022, which increased from Rs. 30.9 crore as on March 31, 2022, due to additional $30 million (~Rs. 240.0 crore) ECB obtained to fund the LDC acquisition in April 2022. Of the total term loan outstanding, Rs. 28.5 crore, Rs. 58.3 crore and Rs. 48.9 crore are scheduled to be repaid in FY2023, FY2024 and FY2025, respectively. Also, the company is expected to maintain similar dividend payout as previous years. Apart from the recent LDC acquisition in April 2022, the company has minimal capex requirements in the near term with capex outflow of ~Rs. 60.0 crore in FY2023 and ~Rs. 40.0 crore in FY2024 for maintenance and capacity expansion. Overall, ICRA expects SEL to meet its near-to-medium-term commitments through internal accruals and yet be left with sufficient cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates a sustained improvement in its operational metrics characterised by healthy revenue growth, leading to an improvement in its margins and credit metrics.

Negative factors – Pressure on the ratings could arise on a sharp deterioration in SEL's financial profile due to delay in turnaround of the LDC division. 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 Component Suppliers
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-2.

About the company

Suprajit Engineering Limited primarily manufactures mechanical control cables for the automotive and non-automotive sectors, speedometers for 2Ws and halogen lamps for 2Ws, 3Ws, passenger cars, commercial vehicles and off-road applications. SEL's product profile in its cables division 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 light lamps, trunk lights, front indicator lights, rear parking lights, number plate lights, rear indicator lights, stop lights, low beam/high beam lights, etc.

SEL is currently the largest manufacturer of automotive cables in India in terms of sales with a manufacturing capacity of about 400 million cables per annum. It also manufactures halogen lamps with a manufacturing capacity of about 110 million per annum. SEL is operational across geographies with 22 manufacturing facilities (including a technology centre in the UK) across the globe catering to the automotive as well as non-automotive businesses.

SEL's customer profile comprises 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 in 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 (audited)

SEL (Consolidated)	FY2021	FY2022	H1 FY2023*
Operating income	1,640.9	1,840.5	1,361.2
PAT	142.7	173.1	73.1
OPBDIT/OI	14.6%	14.3%	9.7%
PAT/OI	8.7%	9.4%	5.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	1.0
Total debt/OPBDIT (times)	1.4	1.3	2.3
Interest coverage (times)	12.5	18.2	9.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; (*) – Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 15, 2022	Oct 20, 2022	Nov 9, 2021 Jul 27, 2021	May 8, 2020	-
1	**Term loans**	Long term	115.00	39.2	**[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)**	-
3	**Non-fund Based**	Short term	3.60	-	**[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**	FY2020-FY2022	1.75%	FY2024-FY2028	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
Wescon Controls LLC*	100.00%	Full Consolidation

Source: Annual report
Note: Wescon Controls is a subsidiary of Suprajit USA Inc.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Harshit Sureka
+91 80 4332 6418
harshit.sureka@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches