



Date: - 1st March, 2023

BSE Ltd. Regd. Office: Floor - 25, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001. BSE Scrip Code: 543300	National Stock Exchange of India Ltd. Listing Deptt., Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 NSE Scrip: SONACOMS
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Subject: - Intimation of revision in credit rating pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir / Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Schedule III, this is to inform you that India Ratings & Research has **revises Company's Outlook to Positive from Stable** and affirming Company's Long-Term Issuer Rating **at 'IND AA'**.

Enclosed herewith the press release issued by India Ratings & Research dated 28th February, 2023.

This is for your information and further dissemination.

Thanking you,

For Sona BLW Precision Forgings Limited

Ajay Pratap Singh
Vice President (Legal), Company Secretary and Compliance Officer

Encl; as above

India Ratings Revises Sona BLW Precision Forgings' Outlook to Positive; Affirms 'IND AA'

Feb 28, 2023 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has revised Sona BLW Precision Forgings Limited's (SBPFL) Outlook to Positive from Stable while affirming its Long-Term Issuer Rating at 'IND AA'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based/non-fund-based limits*	-	-	-	INR7,250 (increased from INR1,825)	IND AA/Positive/IND A1+	Affirmed; Outlook revised to Positive from Stable
Term loans	-	-	December 2026	INR3,500	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable

*Non-fund-based limits are fungible up to INR5,150 million and have been clubbed with the fund-based limits

Analytical Approach: Ind-Ra continues to take a consolidated view of SBPFL and its wholly-owned subsidiaries, while arriving at the ratings because of the strong operational and strategic linkages among them.

The Positive Outlook reflects a significant increase in SBPFL's profitability during FY22-9MFY23 and a sizeable order book (including electric vehicle (EV) related order book), indicating the profitability to increase further and credit metrics to remain strong over FY23-FY24.

Key Rating Drivers

Strong EBITDA Generation: Ind-Ra expects the consolidated EBITDA (9MFY23: INR4,752 million, FY22: INR5,381 million, FY21: INR4,052 million) to continue to increase in FY23-FY24 on the back of a strong growth in revenue as well as favourable product mix. However, the EBITDA margins will remain largely in line with 9MFY23 levels in FY23-FY24. Although raw material prices have remained volatile, Ind-Ra believes 4QFY23 margins should benefit from a likely easing of commodity prices. The agency expects the EBITDA margins to also benefit from a healthy volume traction in higher margin EV-related products, along with the ramping up of the new assembly lines, resulting in improved cost efficiencies.

In 9MFY23, the consolidated EBITDA margin was 24.8% (9MFY22: 26.8%, FY22: 25.5%, FY21: 26.5%). The margins in 9MFY23 were somewhat impacted due to increasing raw material prices. Although, the company is able to pass-on a large part of raw material price increase to its customers. Additionally, SBPFL has been generating a strong return on capital

employed (ROCE) of around 34.4% over FY18- FY22 (FY22: 29.1%). Ind-Ra believes the ROCE to sustain at current levels in FY23-FY24.

Healthy Order Book to Support Revenue Growth: Ind-Ra expects the consolidated revenue to improve 22%-24% yoy in FY23 and increase further to 25%-28% yoy in FY24. The growth would be driven by new programmes across product segments such as EV traction motors, gears and differential assemblies. The growth will also be supported by a likely upcycle in the domestic medium and heavy commercial vehicle industry, supported by customer additions as well as strong order book-backed capacity expansion for assembly lines. As of 31 December 2022, SBPFL had an order book of INR238,000 million, 73% of which pertains to the EV segment.

On a consolidated basis, the revenue increased 22% yoy to INR19,124 million in 9MFY23 (FY22: INR21,097 million, FY21: INR15,306 million) driven by customer additions and execution of the new order book, growth registered across geographies as well as improving realisations. The realisations improved both on account of increasing mix of EV portfolio which has higher realisations, as well raw material price pass-on to the customers.

Robust Credit Profile: Ind-Ra expects the consolidated credit metrics to remain strong FY23 onwards on the back of improving EBITDA. The net leverage (net debt/EBITDA) remained negative in FY22 and 9MFY23 (on a trailing 12-month basis) due to the net cash position (FY21: 0.8x). The interest coverage (EBITDA/interest expense) improved to 38.6x in 9MFY23 (FY22: 29.5x, FY21: 12.5x). Although the company has taken additional debt in 9MFY23, the agency expects the company will be able to fund a large part of its capex and acquisition through internal accruals, thereby maintaining a modest debt profile over the medium term.

Improved Market Position: SBPFL is one of India's leading manufacturers of precision forged differential bevel gears and differential assemblies across various vehicle segments. As of 2022, the company's market share in global differential gears and starter motors stood at 7.2% (2021: 5%, 2020: 5.0%) and 4.1% (3%, 3.0%), respectively. In the domestic market, the company holds 80%-90% market share in commercial vehicles and tractors and 55%-60% in passenger vehicles. It also has strong relationships with major original equipment manufacturers in the domestic as well as international markets.

Well-diversified Revenue Portfolio: The company has a well-diversified revenue base with differential assemblies accounting for 27% of FY22 consolidated revenue, followed by micro-hybrid starter motors (26%), differential gears (25%) and conventional starter motors (17%). Moreover, on the power train front, SBPFL derives 25% of its consolidated revenue from battery electric vehicles (BEV), 31% from power-source neutral vehicles, 26% from hybrid/micro-hybrid vehicles and 18% from internal combustion engine vehicles. The company has significantly expanded its presence in the BEV segment to 25% in FY22 from 1% in FY19, while reducing its dependence on internal combustion engine vehicles. Furthermore, the group faces a limited threat from the industry's shifting trend to EVs as it derives about 52% of its revenue from gears and sub-assemblies that can be used in both internal combustion engines and EVs.

Geographically, the company derives 26% of its FY22 revenue from India and the remaining from the overseas operations spread across North America (33%), Europe (22%), and Asia and others (19%). This limits the company's exposure to a downturn in any particular geography.

Novelic Acquisition to Strengthen Business Profile: The company announced the acquisition of a 54% stake in Novelic d.o.o. Beograd – Zvezdara (Novelic) in January 2023 for a purchase consideration of EUR40.5 million (equivalent to INR3,560 million). This acquisition will provide SBPFL access to a new business vertical of advanced driver-assistance systems sensors and software, which are important from the perspective of trends of increasing vehicle autonomy and automation. Although Novelic's revenue scale was modest at EUR6.05 million in 2021, Ind-Ra believes SBPFL's increasing exposure towards EV, should provide an opportunity to the company to cross-sell and derive synergies from the same. Moreover, Novelic's historical profitability has been in line with SBPFL's profitability, thus limiting any adverse impact on blended margins. As per management, around 60% of the pay-out would take place by March 2023, while the remaining will be done in two phases in FY24 and FY25.

The company has been improving its business profile organically as well as inorganically over the years. With the acquisition of Comstar Automotive Technologies Pvt Ltd in 2019, the company had added conventional and micro-hybrid starter, and brushless direct current electric motors to its product base.

Large Capex to Boost Scale of Operations: Since the company is operating at peak capacity utilisation, it plans to incur a high capex of INR9,000 million-10,000 million over FY24-FY26. This will mainly be towards expanding existing capacities in differential assembly and differential gears as well as setting up a greenfield project to meet the large order book. The capex would also be towards integrated motor controller module and other EV transmission parts, and traction motors. The company has already incurred a capex of about INR1,658 million during 1HFY23 and is likely to incur capex of INR3,000 million-3,500 million in FY23. The capex is order backed and likely to be majorly funded through internal accruals. The capex should help increase the company's scale of operations. The timely completion of capex remains a rating key monitorable.

Liquidity Indicator – Adequate: The consolidated unencumbered cash and cash equivalent improved to INR2,689 million at 9MEFY23 (FYE22: INR773 million, FYE21: INR276 million). SBPFL's average utilisation of its standalone fund-based limits was only about 31% over the 12 months ended December 2022. The free cash flow turned positive to INR611 million in FY22 as per Ind-Ra's calculation (FY21: negative INR1,891 million) mainly due to improved profitability as well as a reduction in the working capital cycle to 135 days (157 days). The improvement in the working capital cycle was majorly due to a reduction in the inventory holding period to 109 days in FY22 (FY21: 130 days) and receivable period to 77 days (99 days). The management expects that the working capital cycle to remain in line with the current level in FY23.

However, Ind-Ra expects the free cash flow to turn negative in FY23 and FY24 due to its large capex plans. Moreover, the management has stated a cash outgo of around INR2,190 million in FY23 towards the Novelic acquisition. There are no major debt repayment obligations over FY23-FY25. Ind-Ra believes the company maintains sufficient liquidity to meet its cash outflows over the medium term and has adequate ability to raise new debt, if needed.

High Customer Concentration: As of FY22, the top five customers accounted for about 45% of the consolidated revenue (FY21: 58%). Although the company has won new orders and has been adding new customers reducing concentration levels gradually; however, Ind-Ra believes the consolidated entity's dependence on a few key customers may remain high over the medium term. SBPFL's long-term relationships with majority of its customers also mitigates the risk to a certain extent. Also, there is a high concentration towards the passenger vehicle industry (roughly 68% of its FY22 revenue); although, its geographically diversified revenue mitigates this risk to an extent.

Exposure to Forex Volatility: The company derived about 74% of its revenue from the international markets in FY22 and 12%-15% of its raw material requirements are imported (mainly from China), thereby exposing it to forex fluctuation risk. However, this is mitigated to a certain extent by the company's effective hedging policy. However, management is aiming towards reducing the group's dependence on imports by sourcing raw materials locally and shifting the manufacturing base to India.

Standalone Financials: In FY22, SBPFL recorded revenue of INR19,181 million (FY21: INR13,642 million), EBITDA of INR4,783 million (INR3,504 million), net leverage of 0.1x (1.0x) and interest coverage of 27.7x (11.0x). During 9MFY23, the revenue was INR19,124 million (9MFY22: INR15,806 million) and EBITDA was INR4,752 million (INR4,237 million), resulting in an improvement in the interest coverage to 38.62x.

Rating Sensitivities

Positive: An improvement in the profitability in line with Ind-Ra's expectations, while maintaining the diversification in the business profile as well as credit metrics on a sustained basis may lead to a positive rating action.

Negative: A lower-than-expected improvement in the profitability, deterioration in the business profile owing to a sustained underperformance of any of the operating divisions and/or a significant debt-funded capex/acquisitions resulting in the net adjusted leverage exceeding 1.0x, all on a sustained basis, may lead to a negative rating action.

Company Profile

SBPFL manufactures precision forged bevel gears, differential assemblies, starter motors and traction motors for automotive applications at its nine manufacturing plants, of which three are located in Gurugram, and one each in Manesar, Pune, Chennai, the US, Mexico and China. Sona Autocomp Holding Private Limited holds a 33.1% stake in SBPFL, Blackstone Group owns 20.5% and the remaining shares are held by public. SBPFL acquired 100% of Comstar Automotive Technologies in July 2019 and the consolidation was approved in January 2022.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	9MFY23	FY22	FY21
Revenue (INR million)	19,124	21,097	15,306
EBITDA (INR million)	4,752	5,381	4,052
EBITDA margin (%)	24.8	25.5	26.5
Gross interest coverage (x)	38.6	29.5	12.5
Net leverage (x)	-0.15	-0.01	0.8
Source: SBPFL, Ind-Ra			
*Excludes foreign exchange gains and other income			

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Ratings/Outlook			
	Rating Type	Rated Limits (million)	Rating	2 December 2021	19 February 2021	11 December 2019	6 June 2019
Issuer rating	Long-term	-	IND AA/Positive	IND AA/Stable	IND AA-/Stable	IND A+/Positive	IND A/ Rating Watch with Developing Implication

Fund-based/non-fund-based limits	Long-term/Short-term	INR7,250	IND AA/Positive/IND A1+	IND AA/Stable/IND A1+	IND AA-/Stable/IND A1+	IND A+/Positive/IND A1+	IND A/ Rating Watch with Developing Implication /IND A1/ Rating Watch with Developing Implication
Term loans	Long-term	INR3,500	IND AA/Positive	IND AA/Stable	IND AA-/Stable	IND A+/Positive	IND A/ Rating Watch with Developing Implication

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Non fund-based working capital limits	Low
Fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

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