SONA COMSTAR

Date: - 2nd December, 2021

BSE Ltd. Regd. Office: Floor - 25, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001.	National Stock Exchange of India Ltd. Listing Deptt., Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051
BSE Scrip Code: 543300	NSE Scrip: SONACOMS

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 upgraded the Company's Long-Term Issuer Rating **to 'IND AA' from 'IND AA-'** and the Outlook is Stable.

Enclosed herewith the press release issued by India Ratings & Research dated 2nd December, 2021

This is for your information and further dissemination.

Thanking you,

For Sona BLW Precision Forgings Limited

Sona BLW Precision Forgings Ltd. Gurgaon

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

Encl; as above

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India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Sona BLW Precision Forgingsto 'IND AA'/Stable; Limits Enhanced

02

DEC 2021

By Sanjuta Goel

India Ratings and Research (Ind-Ra) has upgraded Sona BLW Precision Forgings Limited's (SBPFL) Long-Term Issuer Rating to 'IND AA' from 'IND AA-'. The Outlook is Stable. 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 limits	-	-	-	INR1,625 (increased from INR1,175)	IND AA/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Non-fund-based limits	-	-	-	INR200	IND AA/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Term loans	-	-	December 2026	INR3,500 (increased from INR3,201)	IND AA/Stable	Upgraded

Analytical Approach: Ind-Ra continues to take a consolidated view of SBPFL and its wholly owned subsidiaries, together referred to as the company, to arrive at the ratings because of operational and strategic linkages among them.

The upgrade reflects the company's improved business profile with a more diversified revenue base and increasing contribution from the powertrain agnostic segment, along with a significant increase in its revenues as well as absolute EBITDA over FY21-1HFY22. The upgrade also reflects Ind-Ra's expectation that the company would be able to sustain the growth demonstrated over the medium term supported by a strong order book.

KEY RATING DRIVERS

Strengthened Business Profile: The company's business profile strengthened further in FY21-1HFY22 with a more diversified product platform. The company derived around 21% of its revenue from battery electric vehicles (BEVs) as of 1HFY22 (FY21: 14%; FY20: 2%), 30% (27%; 29%) from hybrid / micro-hybrid, 30% (34%; 42%) from power source neutral vehicles while only 19% (25%; 27%) from pure industrial combustion engine (ICE) vehicles. Currently, the group is supplying primarily differential gear assemblies to global EV players. With around 58.5% of the current order book (INR136 billion as of 1HFY22) catering to the EV segment and introduction of new products, management expects the BEV revenue share to increase further by FY24, thus making its overall portfolio more focused on EV and powertrain agnostic segments.

Well-Diversified Revenue Portfolio: The company has a well-diversified revenue base with micro-hybrid starter motors and differential gears contributing 30% and 26%, respectively, to the consolidated revenue in 1HFY22, followed by differential assemblies (24%), and conventional starter motors (18%). SBPFL's business profile was boosted after the acquisition of Comstar Automotive Technologies Private Limited (CATPL) in July 2019 as SBPFL was primarily present in the precision forged gears and differential case assemblies segments while CATPL manufactures conventional and micro-hybrid starter motors.

The company also benefits from an improving presence in international markets, which contributed about 78% to 1HFY22 consolidated revenues (FY21: 75%). While North America has been its largest export market historically, it was impacted during 1HFY22 due to the semi-conductor shortages. Expansion into Europe for differential assemblies and gears and China for supplying micro-hybrid starter motors remains a key focus area for management.

Healthy Order Book to Support Revenue Growth FY22 Onwards: Ind-Ra expects the consolidated revenues to grow 37%-40% yoy in FY22, on account of a strong order book worth INR136 billion as of September 2021. Moreover, the electrification plan of major global original equipment manufacturers supporting the company's increasing EV and powertrain agnostic product portfolio as well as a recovery in exports markets and new order wins in these markets bode well for its revenue growth in medium term. The growth will also be supported by a likely upcycle in the domestic commercial vehicle industry as well as the order book backed capacity expansion plans.

During 1HFY22, the consolidated revenues increased substantially to INR10,759 million (1HFY21: INR5,155 million, FY21: INR15,306 million; FY20: INR10,380 million), driven by customer additions and execution of the new order book, growth in international market as well as improving realisations from the EV portfolio. Electrification of the portfolio has helped SBPFL to improve average realisations as the content per vehicle for an EV is generally higher than an ICE. Revenues exclude income from foreign exchange gains.

Robust Credit Profile: Ind-Ra expects the consolidated credit metrics to remain strong FY22 onwards, on the back of improving EBITDA, with net leverage (net debt/ EBITDA) remaining below 1x (1HFY22 (on TTM basis): 0.0x; FY21: 0.8x; FY20: 0.6x) and interest coverage (EBITDA/interest expense) exceeding 20.0x (24.6x; 12.5x; 9.8x). The agency expects that the company will be able to largely fund its capex through internal accruals thereby maintaining a modest debt profile over the medium term.

The company's gross debt reduced to INR1,006 million at 1HEFY22 (FY21: INR3,663 million; FY20: INR3,068 million) as part of the initial public offer proceeds were utilised to repay its outstanding long-term loan obligations. The net debt stood at only about INR3 million at 1HEFY22.

Stable EBITDA Margins: Ind-Ra expects the FY22 consolidated EBITDA margins to remain in line with 1HFY22 levels, as the positive impact of improving volumes and a favourable product mix will largely be offset by the increasing raw material price volatility. The agency expects EBITDA margins to improve further in FY23-FY24 as the company expands in the higher margin EV related products along with healthy volume traction for the new assembly lines, resulting in improved cost efficiencies.

During 1HFY22, despite strong headwinds on semiconductor shortages as well as increasing raw material and freight costs, the consolidated EBITDA margins remain healthy at 26.3% (1HFY21: 25.6%; FY21: 26.5%; FY20: 24.6%). The margin growth was supported by volume gains from the higher-margin exports and EV segment as well as management's ability to largely pass on the input price increase to consumers, although with a lag. The absolute EBITDA stood strong at INR2,826 million at 1HFYE22 (1HFY21: INR1,320 million; FY21: INR4,052 million; FY20: INR2,549 million).

Large Capex to Boost Expansion: The company is operating at peak capacity utilisation and hence plans to incur capex of INR7,000 million-INR7,500 million over FY22-FY23 largely towards expansion of the assembly line in Manesar and the gears facility in Chakkan. Of this, around INR1,500 million has already been incurred in 1HFY22 and management plans to incur about INR3,000 million in 2HFY22, largely funded through internal accruals. The capex is largely order-backed and is aimed at achieving increased capacity, higher margins and increasing the scale of operations. The timely completion of capex remains a rating key monitorable.

Improving Market Position: SBPFL is one of India's leading manufacturers of precision forged differential bevel gears (used in differential assemblies of vehicles) across various vehicle segments. As per management, SBPFL's global market share in differential gears and starter motors stood at 6.4% and 5%, respectively, at end-September 2021. As per management, SBPFL holds about 80% market share each in domestic commercial vehicles and tractors and around 60% in passenger vehicles. It has strong relationships with major original equipment manufacturers in the domestic as well as international markets. CATPL is also a leading starter motor player globally and possesses strong development capabilities.

SBPFL has a strong focus on research and development and spent around INR915 million (6% of revenues) towards the same during FY21 (FY20: INR404 million; 3% of revenues). Ind-Ra believes a swift ramping-up of the manufacturing capacities as well as continuous investments in R&D related projects will help the company strengthen its market position in the existing segments and emerge as a well-known brand in the new EV segment.

Liquidity Indicator – Adequate: The company's unencumbered cash and bank balance was INR1,003 million at 1HFYE22. The average utilisation of SBPFL's standalone fund-based limits was only about 22% over the 12 months ended October 2021. However, the company's consolidated free cash flows have been negative for the past two years (FY21: negative INR1,891 million; FY20: negative INR945 million) mainly due to higher capex and dividend pay-outs. In FY21, the free cash flow was also impacted by higher working capital requirements, partly in line with higher revenue as well as the increased cost of inventory held. Also, the working capital cycle elongated to 157 days in FY21 (FY20: 150 days). Ind-Ra expects the company's free cash flow generation to remain negative in FY22 due to its large capex plans.

However, there are no major debt repayment obligations over FY22-FY24 and the agency believes that the company maintains sufficient liquidity to meet any such cash outflow. The company's annualised return on capital employed (annualised EBIT/ average capital employed) improved to 25% during 1HFY22 (FY21: 21%).

The company went public in June 2021. Of the total initial public offer proceeds of INR55,500 million, a larger part (INR52,500 million) was related to the offer for sale by its private equity investor Singapore VII Topco III Pte Ltd. Only INR3,000 million was related to fresh equity issuance, of which around INR2,411 million was used to repay debt while INR589 million was used for business purposes.

High Customer Concentration: As of FY21, the company's largest customer accounted for about 30% of the consolidated revenues, and the top five customers accounted for over 58%. Although the company has won orders and added customers to its portfolio, Ind-Ra believes the consolidated entity's dependence on a few key customers will remain high over the medium term. Also, there is high concentration towards the passenger vehicle industry (roughly 68% of its FY21 revenue), although its geographically diversified revenue mitigates this risk to an extent.

Exposure to Forex Volatility: The company derives about 78% of its revenues from international markets and about 22% of raw material requirements are imported (mainly from China), thereby exposing itself to forex fluctuation risk. However, this is mitigated by the company's effective hedging policy. The management is also making conscious efforts to reduce its dependence on imports by sourcing raw materials locally and shifting the manufacturing base to India. However, the company remains susceptible to fluctuations in US dollar and Euro exchange rates against the Indian rupee.

Standalone Financials: In 1HFY22, SBPFL recorded revenue of INR5,597 million (1HFY21: INR2,502 million; FY21: INR7,491 million), absolute EBITDA of INR1,763 million (INR719 million; INR2,218 million), net leverage of 0.04x (3.9x; 1.4x) and interest coverage of 17.4x (5.1x; 7.7x).

RATING SENSITIVITIES

Positive: A substantial improvement in the company's revenue, along with further diversification in the business profile, and an improvement in the return on capital employed, while maintaining the profitability and credit metrics, all on a sustained basis, could lead to a positive rating action.

Negative: A lower-than-expected improvement in the company's revenues or profitability, deterioration in the business profile owing to sustained underperformance of any of the operating divisions and/or significant debt-funded capex/ acquisitions resulting in the net adjusted leverage exceeding 1.5x, all on a sustained basis, could lead to a negative rating action.

COMPANY PROFILE

SBPFL manufactures precision forged bevel gears, differential case assemblies and synchroniser rings for automotive and other applications at its five manufacturing plants, three in Gurgaon, one in Manesar and one in Pune. Sona Autocomp Holding Private Limited holds a 33.1% stake in SBPFL, while Blackstone Group owns 34.2% and the remaining shares are held by public. SBPFL acquired 100% of CATPL in July 2019 and both entities are in the process of being merged.

CATPL manufactures starter motors, starter motor kits, and alternators for automotive application. Its manufacturing facilities are spread across Chennai (India), Tecumseh (the US), Hangzhou (China) and Irapuato (Mexico).

FINANCIAL SUMMARY (Consolidated)

Particulars	FY21	FY20*
Revenue (INR million)	15,306	10,380
EBITDA (INR million)	4,052	2,549
EBITDA margin (%)	26.5	24.6
Gross interest coverage (x)	12.5	9.8
Net leverage (x)	0.8	0.6

Source: SBPFL, Ind-Ra		

*Financials for CATPL (consolidated) have been accounted with effect from 5 July 2019

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Ratings/Outlook/Rating Watch			
	Rating Type	**Rated Limits (million)**	**Rating**	**19 February 2021**	**11 December 2019**	**6 June 2019**	**21 March 2018**
Issuer rating	Long-term	-	IND AA/Stable	IND AA-/Stable	IND A+/Positive	IND A/RWE	IND A/Stable
Fund-based limits	Long-term/Short-term	INR1,625	IND AA/Stable/IND A1+	IND AA-/Stable/IND A1+	IND A+/Positive/IND A1+	IND A/RWE/IND A1/RWE	IND A/Stable/IND A1
Non-fund-based limits	Short-term	INR200	IND AA/Stable/IND A1+	IND AA-/Stable/IND A1+	IND A+/Positive/IND A1+	IND A/RWE/IND A1/RWE	IND A/Stable/IND A1
Term loans	Long-term	INR3,500	IND AA/Stable	IND AA-/Stable	IND A+/Positive	IND A/RWE	IND A/Stable

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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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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