SONA COMSTAR

Date: - 23rd February, 2024

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 the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Dear Sir / Madam,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform you that India Ratings & Research has **upgraded the Company's Long-Term Rating on bank facilities to 'IND AA+/Stable' from 'IND AA'/Positive**. Also, the agency has upgraded the Long-Term Issuer Rating to 'IND AA+' from 'IND AA', with a Positive Outlook, and withdrawn it on the request of the company.

An issuer rating, which is not applicable to any specific debt obligation, can be withdrawn at the request of the rated entity.

Enclosed herewith the press release issued by India Ratings & Research dated 23rd February, 2024.

This is for your information and further dissemination.

Thanking you,

For Sona BLW Precision Forgings Limited

AJAY PRATAP SINGH

Digitally signed by AJAY PRATAP SINGH
Date: 2024.02.23 20:52:59 +05'30'

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

Enclosed as above

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India Ratings Upgrades Sona BLW Precision Forgings' Bank Facilities to 'IND AA+'/Stable; Upgrades & Withdraws Long-Term Issuer Rating

Feb 23, 2024 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has upgraded the long-term rating on Sona BLW Precision Forgings Limited's (SBPFL) bank facilities to 'IND AA+'/Stable from 'IND AA'/Positive while affirming the short-term rating at 'IND A1+'. Also, the agency has upgraded the Long-Term Issuer Rating to 'IND AA+' from 'IND AA', with a Positive Outlook, and withdrawn it on the request of the company. 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	IND AA+/Stable/IND A1+	Long-Term Rating Upgraded/Short-Term Rating affirmed
Term loans	-	-	December 2026	INR3,500	IND AA+/Stable	Upgraded

*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, together referred to as the company to arrive at the ratings, because of the strong operational and strategic linkages among them.

The upgrade reflects a significant increase in the consolidated profitability in 9MFY24, along with a sizeable order book (including electric vehicle (EV) related order book) benefitting from consistent new product launches. The rating action also reflects the company's strong operating performance, robust liquidity, solid credit metrics at the consolidated level which Ind-Ra expects it to sustain over FY24-FY25.

Ind-Ra has withdrawn the Long-term Issuer Rating at the request of the company. An issuer rating, which is not applicable to any specific debt obligation, can be withdrawn at the request of the rated entity. This is consistent with Ind-Ra's policy on Withdrawal of Ratings.

Key Rating Drivers

Strong EBITDA Generation: SBPFL's EBITDA has been growing consistently. In 9MFY24, the consolidated EBITDA was INR6,551 million (9MFY23: INR4,752 million, FY23: INR6,752 million), mainly driven by healthy revenue growth, a better product mix and improving operating leverage. Ind-Ra expects the consolidated EBITDA to continue to increase over FY24-FY25 on the back of healthy volume traction in EV-related products, along with the ramping up of new assembly lines, resulting in improved cost efficiencies.

The consolidated EBITDA margins have remained resilient over FY19-9MFY24 ranging between 24% and 30% on the back of SBPFL's strong market leadership position, cost controls and products specialisation. The margins grew sequentially on a quarter-on-quarter basis from 1QFY23-3QFY24 on the back of the easing raw material prices coupled with better operating leverage and improved operational efficiencies. The margins were also aided by an increased contribution from new product launches and higher-margin products. In 9MFY24, the consolidated EBITDA margin was 28.5% (9MFY23: 24.8%, FY23: 25.4%, FY22: 25.5%). Ind-Ra expects the EBITDA margins to remain between 25% and 28% over FY24-FY25.

SBPFL generated a strong return on capital employed (ROCE) over FY18-FY23 (FY23: 22%) at the consolidated level. Ind-Ra believes the ROCE will sustain at the FY23 levels in FY24 and will start improving from FY25.

Healthy Order Book to Support Revenue Growth: Ind-Ra expects the consolidated revenue to improve 15%-17% yoy in FY24 and FY25 on the back of new programmes across product segments such as EV traction motors, gears and differential assemblies. The growth will also be supported by customer additions as well as SBPFL's strong order book-backed capacity expansion for assembly lines. As on 31 December 2023, SBPFL had an unexecuted order book of INR240,000 million, 79% of which pertains to the EV segment, to be executed in the next 10 years.

The consolidated revenue increased 20% yoy to INR23,006 million in 9MFY24, driven by customer additions and the execution of new order book, growth registered across geographies as well as improving realisations. The realisations improved on account of the increasing proportion of the higher-realisation entailing EV portfolio in the revenue mix. The company recorded revenue growth of 25.8% yoy to INR26,550 million in FY23 (FY22: INR21,097 million, FY21: INR15,306 million).

Improving Business Profile: SBPFL has a well-diversified revenue base, with differential gears accounting for 32% of the FY23 consolidated revenue, followed by differential assemblies (23%), micro-hybrid starter motors (21%) and conventional starter motors (15%). Moreover, on the power train front, SBPFL derives 26% of its consolidated revenue from battery electric vehicles (BEV), 38% from power-source neutral vehicles, 21% from hybrid/micro-hybrid vehicles and 15% from internal combustion engine vehicles. SBPFL has diversified its product portfolio over a period of time into more technological advanced products which has helped it achieve a strong market position. It has added an entirely new vertical to its portfolio- advanced driver-assistance systems sensors and software through the Novelic d.o.o. Beograd – Zvezdara's (Novelic) acquisition completed in 1HFY24. Furthermore, during May 2023, SBPFL entered into a technological tie-up with a UK based company, Equipmake Holdings Plc, for manufacturing bus motors, which is likely to start by FYE26.

The company has significantly expanded its presence in the BEV segment to 28% in 9MFY24 from 1% in FY19, while reducing its dependence on internal combustion engine vehicles. The group faces a limited threat from the industry's shifting trend to EVs, as it derives about 55% of its revenue from gears and sub-assemblies that can be used in both internal combustion engines and EVs.

Geographically, the company derived 29% of its FY23 revenue from India and the remaining from the overseas operations spread across North America (43%), Europe (20%), and Asia and others (8%). This limits the company's exposure to a downturn in any particular geography.

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 per the management, the company's market share in global differential gears and starter motors stood at 8.1% at end-2023, (2022: 7.2%, 2021: 6.3%) and 4.2% (4.1%, 4.6%), 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.

Robust Credit Profile: SBPFL's credit profile remained robust over FY19-9MFY24 on the back of its low debt levels, coupled with its strong operating profitability. The net adjusted leverage (net debt including lease liabilities/EBITDA) remained negative in FY23 and was 0.01x at end-9MFY24 (on a trailing 12-month basis; FY22: 0.1x). The interest coverage (EBITDA/interest expense) stood at 35.1x in 9MFY24 (FY23: 39.9x, FY22: 29.5x). Ind-Ra expects the consolidated credit metrics to remain strong over the near-to-medium term owing to strong EBITDA generation, coupled with low debt levels.

Novelic Acquisition to Strengthen Business Profile: The company had announced the acquisition of a 54% stake in Novelic in January 2023 for EUR40.5 million (equivalent to INR3,560 million) which was completed in September 2023. The acquisition was made with a view to enter into a new business vertical of advanced driver-assistance systems sensors and software. The new segment contributed only 1% to the revenue during 3QFY24, and the management expects that it will take another three-to-four years for the segment to fully ramp up and contribution meaningfully to the overall revenue. Nonetheless, Novelic's historical profitability has been in line with SBPFL's profitability, thus limiting any adverse impact on blended margins. The payments will be made through internal accruals as per the management.

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: The company plans to incur a capex of INR10,000 million-13,000 million collectively over FY24-FY26. This will be incurred mainly towards expanding the existing capacities in differential assembly and differential gears as well as setting up a greenfield project to meet the large order book. Some part of the capex would also be deployed towards integrated motor controller module and other EV transmission parts, two-wheeler (2W) orderbook and active suspension motors. The company incurred a capex of about INR1,409 million during 1HFY24 and is likely to incur capex of INR3,000 million-4,000 million in FY24 and INR4,000 million-5,000 million in FY25. 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 INR3,345 million at 9MEFY24 (FYE23: INR2,975 million, FYE22: INR838 million). SBPFL's average utilisation of its standalone fund-based limits was only about 42% over the 12 months ended December 2023. The free cash flow was positive at INR801 million in FY23 and INR733 million during 1HFY24 as per Ind-Ra's calculation (FY22: INR611 million, FY21: negative INR1,891 million), mainly due to improved profitability as well as a reduction in the working capital cycle. The working capital cycle improved to 112 days in FY23 (FY22: 131 days) and further to 109 days in 1HFY24. The improvement in the working capital cycle was majorly due to a reduction in the inventory holding period to 74 days in FY23 (FY22: 105 days, FY21: 116 days) which increased slightly to 80 days at end-1HFY24. The management expects the working capital cycle to remain largely unchanged yoy in FY24.

Ind-Ra expects the free cash flow to remain positive in FY24 despite the company's large capex plans. However, the same might turn marginally negative in FY25 on account of yoy higher capex planned to be incurred in FY25. Moreover, the first tranche of payment with regard to Novelic acquisition of INR2,110 million (60% of the total pay-out) was already been made at end-September 2023, while the remaining will be done equally in two phases (around INR731 million each) in September 2024 and September 2025. There are no major debt repayment obligations over FY24-FY26. 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: At FYE23, the top five customers accounted for about 56% of the consolidated revenue (FY22: 59%). Although the company has won new orders and has been adding new customers reducing concentration levels gradually, 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 69% of its FY23 revenue); however, SBPFL's geographically diversified revenue mitigates this risk to an extent.

Exposure to Forex Volatility: The company derived about 71% of its revenue from the international markets in FY23 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, the management is aiming at reducing the group's dependence on imports by sourcing raw materials locally and shifting the manufacturing base to India.

Standalone Financials: In FY23, SBPFL recorded a revenue of INR24,477 million (FY22: INR19,181 million), an EBITDA of INR6,169 million (INR4,783 million), a net leverage of 0.1x (0.2x) and an interest coverage of 37.7x (27.7x). During 9MFY24, the revenue was INR20,984 million (9MFY23: INR17,487 million) and EBITDA was INR6,013 million (INR4,280 million), resulting in an interest coverage of 32.9x.

Rating Sensitivities

Positive: A substantial increase in the revenue and profitability, along with an ability to generate free cash flow on a consistent basis, while maintaining current ROCE levels and credit metrics could lead to a positive rating action.

Negative: A substantial decline in the profitability and/or 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, three in Gurgaon, one each in Manesar, Pune, Chennai, USA, Mexico and China. Private equity firm Blackstone, which held 20.5% stake in the company through its subsidiary -Singapore VII Topco III Pte. Ltd, sold its stake completely in March 2023. The promoter holding was 29.8% at end-December 2023.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	9MFY24	FY23	FY22
Revenue* (INR million)	23,006	26,550	21,097
EBITDA (INR million)	6,551	6,752	5,381
EBITDA margin (%)	28.5	25.4	25.5
Gross interest coverage (x)	35.1	39.9	29.5
Net adjusted leverage (x)	0.01	Net Cash	0.1
Source: SBPFL, Ind-Ra			

*Revenues are excluding foreign exchange gains and other income.

Non-Cooperation with previous rating agency

Not applicable

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.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Ratings/Outlook		
	Rating Type	**Rated Limits (million)**	**Rating**	**28 February 2023**	**2 December 2021**	**19 February 2021**
Issuer rating	Long-term	-	WD	IND AA/Positive	IND AA/Stable	IND AA-/Stable
Fund-based/non-fund-based limits	Long-term/Short-term	INR7,250	IND AA+/Stable/IND A1+	IND AA/Positive/IND A1+	IND AA/Stable/IND A1+	IND AA-/Stable/IND A1+
Term loans	Long-term	INR3,500	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA-/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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