Sundaram Auto Components Limited

December 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	65.50	CARE A+ (RWD)	Placed on Rating Watch with Developing Implications
Long-term / Short-term bank facilities	160.00	CARE A+ / CARE A1+ (RWD)	Placed on Rating Watch with Developing Implications
Short-term bank facilities	30.00	CARE A1+ (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed its ratings assigned to the bank facilities of Sundaram Auto Components Limited (SACL) on Rating Watch with Developing Implications.

The rating action follows the company's announcement on December 02, 2024, whereby SACL will sell its core business of injection-moulded plastic component solutions (includes 5 manufacturing units out of 6) to Pricol Precision Products Private Limited (PPPPL), a wholly owned subsidiary of Pricol Limited. The proposed transaction, valued at ₹215.3 crore (subject to adjustments per the Business Transfer Agreement) will be executed as a going concern on a slump sale basis. The transaction is expected to conclude by January 31, 2025, following the fulfilment of conditions precedent agreed upon by the parties. Management has indicated that the proceeds will primarily be used to repay existing debt amounting to ₹87 crore as on September 30, 2024. SACL will retain ownership of the land and building at its Hosur unit, while other assets and liabilities (except outstanding debt) are likely to be transferred to PPPPL as part of the transaction.

The injection-moulded plastic component solutions division accounted for ₹727.33 crore (i.e. ~95% of SACL's total turnover in FY24. The divestment is expected to provide immediate liquidity, enabling the company to strengthen its balance sheet by significantly reducing debt levels. CARE Ratings will continue to closely monitor the above-said transaction and shall take a view on the ratings of SACL once have a further clarity on the impact of the same on the business and financial risk profile of the entity. TVS Motors' commitment to ensuring smooth operational continuity and exploring alternative avenues of growth in SACL going ahead will remain key monitorable.

Ratings continues to draw strength from it being a part of the TVS group and wholly-owned subsidiary of TVS Motor Company Limited (TVSM; rated 'CARE AA+; Stable/ CARE A1+'). SACL's experienced management team, synergies of operations with its parent, established track record as a supplier to original equipment manufacturers (OEMs) and Tier-I suppliers in the domestic automobile market also adds to the strength of the company's credit profile. These rating strengths are partially offset by SACL's dependence on TVSM for majority of its business. Ratings are also constrained by vulnerability of volumes to cyclicality associated with the automobile industry, and profit margin susceptible to variation in raw material prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in sales and cash profits of the company.
- Improvement in overall gearing to below 0.20x.

Negative factors

- Deterioration in credit profile of parent or lower-than-envisaged support from parent.
- Significant increase in investments to the group companies/subsidiaries leading to deterioration in the adjusted overall gearing to 1.50x on a sustained basis.

Analytical approach: Standalone

Ratings also factor in linkages and support from the parent company, TVSM. CARE Ratings assumes that support from TVSM will be forthcoming in case of any exigencies.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Strong parentage support, part of TVS Group

SACL is a wholly-owned subsidiary of TVSM, which is one of the leading two-wheeler manufacturers in the country, belonging to the TVS group of companies. TVS Group is a diversified automotive conglomerate with a presence in manufacturing 2W/3W, auto components, high tensile fasteners, die casting products, brakes, wheels, tyres, axles, seating systems, fuel injection components, electronic and electrical components, with interests in the areas of finance and information technology. In FY24, TVSM reported a profit-after-tax (PAT) of ₹2,083.00 crore (PY: ₹1,491.03 crore) on total income of ₹31,539.35 crore (PY: ₹26,143.99 crore). The company reported an increase in total operating income (TOI) of 20.64% in FY24 YoY, mainly led by higher exports and an improved mix. TVSM exports outpaced industry exports in FY24. TVSM's market capitalisation stood at ₹118,771.78 crore as on December 10, 2024.

Long operational track record and strong management team

SACL has long track record of operations spanning over 20 years and is headed by Venu Srinivasan (Chairman) having over four decades of experience in the industry. TVSM and SACL are both under the same management with few common directors. Hence, SACL benefits from vast experience of the TVS group management. The company's day-to-day affairs are managed by well-experienced professionals.

Synergies of operations with the parent company

SACL's manufacturing facilities are in proximity to TVSM's facilities and the majority requirement of plastic-moulded components used in 2Ws and 3Ws of TVSM is sourced from SACL. Design engineers from SACL work in coordination with TVSM from the design stage of new vehicle launches, as there is a high level of importance associated with safeguarding the product design knowledge. A large part of the sale (~53% in FY24) of SACL's products is being made to its parent (TVSM).

Comfortable debt coverage indicators

The company continues to have comfortable financial risk profile as evinced by overall gearing of 0.63x in FY24 (PY: 0.25x). Other debt coverage indicators such as total debt to gross cash accruals (TD/GCA) improved in FY24 due to improved operating performance. Similarly, other debt coverage metrics would also continue to remain comfortable in FY25.

Liquidity: Adequate

SACL's liquidity is adequate as evinced by cash and liquid investments of ₹8.13 crore as on September 30, 2024, and expected GCA of ₹45 crore, which is more than adequate for debt repayment. The company derives comfort by being a part of the TVS Group. The parent provides financial support to the company on a need basis.

Key weaknesses

Operating margins have improved but are exposed to commodity inflation

SACL reported a TOI of ₹763.79 crore in FY24, an increase of 2.48% YoY. Volumes traded by the company increased, with strong growth in 2Ws and 3Ws. However, revenue is expected to increase due to growth in sales realisation in H1FY25. SACL uses several plastic materials in its products, whose prices have been volatile in the past. The margin depends on the company's ability to pass on raw material price volatility to customers. SACL passes on the increase in raw material prices immediately to its non-TVSM customers on a back-to-back basis. However, with TVSM, SACL has a one-quarter lag policy. CARE Ratings notes that any benefit/loss due to price volatility will get reflected in the next quarter.

High customer concentration risk with majority sales to TVSM, though new customers added

In addition to automobile industry's performance, TVSM's performance assumes greater significance for SACL as TVSM continues to be the single-largest OEM contributing to ~53% of the company's net sales in FY23 (PY: 47%). This has resulted in the company's fortunes being largely linked to that of TVSM. Over past few years, the company is trying to diversify by adding new customers and thus reducing the dependence on TVSM. SACL caters to several other OEMs through Tier-I suppliers in the four-wheeler (4W)/ heavy commercial vehicles (HCV) segment and is constantly striving to diversify its customer base. Plastic products manufactured by SACL also find application in the non-automotive segments such as white goods. However, contribution of the same is negligible in SACL's overall income presently.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Factoring Linkages Parent Sub JV Group
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components & equipments

SACL was incorporated in 1992 as a wholly-owned subsidiary of TVSM (rated 'CARE AA+; Stable/ CARE A1+') for manufacturing automobile components. In 2003, SACL acquired plastics and rubber divisions of another subsidiary of TVSM, 'Lakshmi Auto Components Limited'. As at the end of December 2020, SACL was operating six manufacturing facilities, of which two are situated in Tamil Nadu (at Hosur and Oragadam, respectively), one in Mysore (Karnataka), one in Nalagarh (Himachal Pradesh), one in Sanand (Gujarat), and one in Bhiwadi (Rajasthan). Currently, all six facilities are equipped to manufacture plastic-moulded components.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	783.21	763.79	421.75
PBILDT	56.13	61.78	30.91
PAT	15.50	19.25	11.64
Overall gearing (times)	0.25	0.63	0.58
Interest coverage (times)	4.34	5.45	5.73

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	17.00	CARE A+ (RWD)
Fund-based - LT-Term loan		-	-	September 2027	48.50	CARE A+ (RWD)
Fund-based - ST-Term loan		-	-	March 2025	30.00	CARE A1+ (RWD)
Fund-based/Non-fund-based-LT/ST		-	-	-	45.00	CARE A+ / CARE A1+ (RWD)
Fund-based/Non-fund-based-LT/ST		-	-	-	75.00	CARE A+ / CARE A1+ (RWD)
Fund-based/Non-fund-based-LT/ST		-	-	-	40.00	CARE A+ / CARE A1+ (RWD)

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term loan	LT	48.50	CARE A+ (RWD)	-	1)CARE A+; Stable (04-Mar-24)	1)CARE A+; Stable (06-Mar-23) 2)CARE A+; Stable (27-May-22) 3)CARE A+; Stable (07-Apr-22)	-
2	Fund-based - LT-Cash credit	LT	17.00	CARE A+ (RWD)	-	1)CARE A+; Stable (04-Mar-24)	1)CARE A+; Stable (06-Mar-23) 2)CARE A+; Stable	-

							(27-May-22) 3)CARE A+; Stable (07-Apr-22)	
3	Fund-based/Non-fund-based-LT/ST	LT/ST	75.00	CARE A+ / CARE A1+ (RWD)	-	1)CARE A+; Stable / CARE A1+ (04-Mar-24)	1)CARE A+; Stable / CARE A1+ (06-Mar-23) 2)CARE A+; Stable / CARE A1+ (27-May-22) 3)CARE A1+ (07-Apr-22)	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST	40.00	CARE A+ / CARE A1+ (RWD)	-	1)CARE A+; Stable / CARE A1+ (04-Mar-24)	1)CARE A+; Stable / CARE A1+ (06-Mar-23) 2)CARE A+; Stable / CARE A1+ (27-May-22) 3)CARE A1+ (07-Apr-22)	-
5	Fund-based - ST-Term loan	ST	30.00	CARE A1+ (RWD)	-	1)CARE A1+ (04-Mar-24)	1)CARE A1+ (06-Mar-23) 2)CARE A1+ (27-May-22) 3)CARE A1+	-

							(07-Apr-22)	
6	Fund-based/Non-fund-based-LT/ST	LT/ST	45.00	CARE A+ / CARE A1+ (RWD)	-	1)CARE A+; Stable / CARE A1+ (04-Mar-24)	1)CARE A+; Stable / CARE A1+ (06-Mar-23) 2)CARE A+; Stable / CARE A1+ (27-May-22) 3)CARE A+; Stable / CARE A1+ (07-Apr-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - ST-Term loan	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Arti Roy Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3657 E-mail: arti.roy@careedge.in Amit Ramkumar Umarvaishya Analyst **CARE Ratings Limited** E-mail: Amit.Umarvaishya@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information,
please visit www.careedge.in