



Sharda Motor Industries Ltd.

SMIL: BSE/NSE: 17-18/3107-01

31st July, 2017

BSE Limited
Department of Corporate Services
Pheroze Jeejeebhoy Towers
Dalal Street, Mumbai - 400 001
(SCRIP CODE - 535602)

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra - Kurla Complex, Mumbai - 400 051
(Symbol - SHARDAMOTR) (Series - EQ)

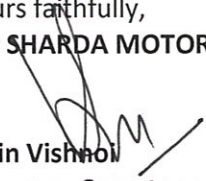
Sub: Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/ Madam

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that CRISIL Limited, vide its publication dated 28th July, 2017 (copy enclosed), has upgraded the rating on the long-term bank facilities of the Company to 'CRISIL AA-/Stable' from 'CRISIL A+/Positive'.

Please take the same on record.

Thanking you,
Yours faithfully,
For SHARDA MOTOR INDUSTRIES LIMITED


Nitin Vishnoi
Company Secretary
Encl:



Ratings

Rating Rationale

July 28, 2017 | Mumbai

Sharda Motor Industries Limited

Rating upgraded to 'CRISIL AA-/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.167 Crore
Long Term Rating	CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')

* Interchangeable with Letter of credit and bank guarantee

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its rating on the long-term bank facilities of Sharda Motor Industries Limited (SMIL) to '**CRISIL AA-/Stable**' from '**CRISIL A+/Positive**'.

The upgrade reflects CRISIL's belief that SMIL will sustain improved business risk profile over the medium term on the back of sales traction gained in the 9 months ended June 2017 due to orders for new models of cars and commercial vehicles from both existing and new clients. The company received new orders from original equipment manufacturers (OEMs) such as Tata Motors Ltd, Ashok Leyland Ltd, SML Isuzu and Force Motors Ltd; and increased share of business from existing customers, mainly Mahindra and Mahindra Ltd (M&M; rated 'CRISIL AAA/Stable/CRISIL A1+'). Consequently, operating revenue grew 12% year-on-year in fiscal 2017; while operating margin increased by 128 basis points to 12.28% (better than earlier expected), backed by higher operational efficiencies and process improvement attained owing to substantial investment in research and development (R&D) infrastructure. Growth momentum in revenue and operating margin is likely to be sustained over the medium term.

Business risk profile is further supported by products developed in-house, which are compliant with Bharat Stage-VI (BS-VI; likely to be implemented by fiscal 2020) and the number of developers for BS-VI compliant vehicles have already started using these products to align with their vehicles. This provides revenue visibility for the medium term.

The upgrade also factors in the strong financial flexibility driven by absence of any debt-funded capital expenditure (capex) and sustained accretion to reserves. Healthy cash accualis expected to be sufficient to meet incremental working capital requirement, leading to minimal dependence on bank debt. Unencumbered liquid investment of around Rs 150 crore as on July 7, 2017, also support liquidity. Despite expected acquisition of intellectual property rights, technological tie-ups, or inorganic growth, quantum of investment will remain key a rating sensitivity factor over the medium term.

Key Rating Drivers & Detailed Description

Strengths

* Established market position, diversified product portfolio, and strong customer base

Experience of around three decades in manufacturing exhaust systems has enabled the promoters to develop healthy relationship with OEMs such as M&M, for which SMIL is the exclusive supplier of independent front suspension system. It also caters to all models of Hyundai Motor India Ltd (Hyundai; rated 'CRISIL A1+') and is the exclusive supplier of seat frames to various models of Maruti Suzuki India Ltd (MSIL; 'CRISIL AAA/Stable/CRISIL A1+'). Exhaust systems account for 60-65% of total revenue while the remaining comes from the non-exhaust business (suspension systems, seat frames and canopies, and plastic sheet metal components for air conditioners). Plans to expand operations to the commercial vehicle segment will diversify product and customer profiles.

* Continued focus on R&D, process automation, and value engineering

Substantial investment in R&D infrastructure has improved production process and helped to launch products that match the stricter emission norms of Bharat Stage-VI. This has led to better operating efficiency and numerous orders for exhaust systems for new launches scheduled over the next 12-18 months. These high value-added products will be sold at a significant premium compared to the existing ones.

* Strong financial risk profile

Networth was large at Rs273.5 crore and total outside liabilities to tangible networth ratio comfortable at 0.98 time, as on March 31 2017. Also, debt protection metrics were robust, with interest coverage and net cash accrual to adjusted debt ratios of 18.95 times and 1.79 time, respectively, for fiscal 2017.

Weakness

* Customer concentration in revenue

Top three customers (M&M, Hyundai, and MSIL) accounted for 88% of total revenue in fiscal 2017. Revenue concentration between these players has improved in the recent years, to an almost equal contribution, from around 45% of overall revenue being contributed by M&M alone, earlier. Also, management has taken steps to diversify into the commercial

vehicle segment, contribution from which is expected to increase to 12-15% by fiscal 2018, driven by orders from Tata Motors Ltd and Ashok Leyland Ltd.

*** Susceptibility to increase in raw material prices and pricing pressure from OEMs**

The company has limited bargaining power against OEMs, which periodically revise prices based on their financial standing and willingness. As such, any benefit in operating margin comes with a lag.

Outlook: Stable

CRISIL believes SMIL will continue to benefit over the medium term from its established position, healthy relationship with OEMs, and steady demand for passenger cars and utility vehicles. The outlook may be revised to 'Positive' in case of higher-than-expected revenue growth due to substantial business volume from addition of new customers and new BS-VI products, along with further improvement in profitability. The outlook may be revised to 'Negative' if revenue growth is lower than expected, profitability and working capital management weaken, or large, debt-funded capex or any acquisition affects financial risk profile, especially liquidity.

About the Company

Incorporated in 1986, SMIL is the flagship company of the Relan group; Relan family holds 74.98% stake in the company. SMIL manufactures exhaust and independent suspension systems, canopies, seat covers, and seat frames for passenger cars, utility vehicles, light commercial vehicles, medium and heavy commercial vehicles, and vans. It also supplies sheet-metal components to white goods manufacturers. The company has 13 manufacturing facilities in India.

Net sales stood at Rs 1036 crore against a net profit Rs 55.9 crore in fiscal 2017 as against Rs.918 crore and Rs.34.2 crore respectively in previous fiscal.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	145	CRISIL AA-/Stable
NA	Term Loan	NA	NA	30-Jan-2018	9.08	CRISIL AA-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	12.92	CRISIL AA-/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST		--		--		--		--	04-08-14	Withdrawal	CRISIL A1
Fund-based Bank Facilities	LT/ST	167	CRISIL AA-/Stable	01-02-17	CRISIL A+/Positive		No Rating Change	06-10-15	CRISIL A+/Stable	04-08-14	CRISIL A/Positive	CRISIL A/Positive/ CRISIL A1

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	145	CRISIL AA-/Stable	Cash Credit	120	CRISIL A+/Positive
Proposed Long Term Bank Loan Facility	12.92	CRISIL AA-/Stable	Term Loan	47	CRISIL A+/Positive
Term Loan	9.08	CRISIL AA-/Stable	--	0	--
Total	167	--	Total	167	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)