

July 19, 2022

## JBM Ogihara Automotive India Limited: Ratings reaffirmed; Rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	17.00	17.00	[ICRA]BBB- (Stable); Reaffirmed
Fund based Limits	-	10.00	[ICRA]BBB-(Stable)/[ICRA]A3; Assigned
Interchangeable Limits	-	(5.00)	[ICRA]A3; Assigned
Term Loans	1.91	60.44	[ICRA]BBB- (Stable); Reaffirmed/ Assigned
Non Fund-Based Facilities	4.00	4.00	[ICRA]A3; Reaffirmed
Unallocated Limits	27.09	0.56	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
<b>Total</b>	<b>50.00</b>	<b>92.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to factor in the technical expertise and business support received by JBM Ogihara Automotive India Limited (JOAIL) from its parent companies, JBM Auto Limited (JBMA) and Ogihara Thailand Company (OTC), who are established players in the automotive sheet metal component manufacturing space. The ratings also factor in the established relationship of JOAIL with its primary customer, Toyota Kirloskar Motors Limited (TKML), supported by the established relationship between OTC and the Toyota Group globally.

ICRA also favourably factors in the cross-badging agreement between Toyota Motors and Suzuki, under which the two original equipment manufacturers (OEMs) have agreed to manufacture vehicles for each other for the Indian market. The arrangement augurs well for JOAIL, as it improves its business prospects in addition to diversifying its customer base. JOAIL has gained business for supplying components of TKML's upcoming models (one of which will be under the cross-badging arrangement), which are expected to be launched in FY2023. In addition to the significantly higher volumes that these business orders entail, the content per vehicle for these models is also expected to be much higher than the existing models, due to business secured for some new parts. These orders also entail sizeable tooling income. Accordingly, the new business is expected to drive significant growth in JOAIL's revenues over the medium term (expected to increase to ~Rs. 300 crore p.a.), besides offsetting the impact of discontinuation of the Etios, Yaris and Corolla models by TKML.

The rating remains constrained by the company's modest scale of operations, high customer concentration owing to exposure to a single customer and volatility in revenues due to the lumpy nature of tooling sales. JOAIL's scale of operations currently remains small, with revenues of only Rs. 67 crore in FY2022. ICRA notes that albeit on a low base of FY2021, JOAIL's revenues grew by ~65% in FY2022 aided by recovery in the PV industry, good response for the facelifted Fortuner model and healthy demand for the Innova model. However, JOAIL incurred capex of ~Rs. 62 crore in FY2022 towards setting up an assembly plant for the new businesses, primarily debt-funded, which led to deterioration in the capital structure (total debt excluding lease/TNW) to 1.9 times in FY2022 from 0.2 time in FY2021. Nevertheless, the capex has now been completed and, going forward, the company does not have any major capex requirements. Further, incremental earnings from the new businesses are expected to aid the company in meeting its debt repayment obligations over the medium term in a timely manner. Accordingly, the credit metrics are expected to improve gradually, as the company ramps up supplies for the new models from TKML.

The outlook on the long-term rating is Stable as ICRA believes that the company will continue to benefit from its established relationship with TKML, which is further strengthened by the global linkages between the Toyota Group and OTC. The business

prospects of the company remain healthy over the medium term aided by the expected launch of new models by TKML. Additionally, being part of the larger JBM Group lends it technical and business support, besides financial flexibility. Although the company's credit metrics have moderated over the last one year due to subdued profitability and debt-funded capex undertaken, ICRA expects the same to improve gradually over the medium term, as the company starts to realise revenues from the new models.

## Key rating drivers and their description

### Credit strengths

**Benefits accruing from being a JV between JBMA and OTC, who have an established track record in the sheet metal components space** – JOAIL is a 51: 49 JV between JBMA and OTC, both of whom are well-established players in the auto-component manufacturing space. JOAIL benefits from the technical expertise of its parent companies in its scope of operations, which supports its business prospects.

**Well-established relationship with key customer, TKML, supported by global linkages between foreign parent, OTC, and Toyota Group globally** – JOAIL's foreign parent, OTC, is one the key suppliers of sheet metal components as well as tools and dies to the Toyota Group globally. For JOAIL, it has been instrumental in gaining business for supplying components for TKML's new models in the country over the years. For the new models that JOAIL would be supplying to TKML, the company has secured some additional components, which were earlier supplied by competitors. This also offers comfort regarding its business position with TKML.

**Model launches under cross-badging agreement between Toyota and Suzuki augurs well for JOAIL's growth prospects** – Following the cross-badging agreement between Toyota and Suzuki, JOAIL has gained business for supplying components for a cross badged model, which is expected to be launched in FY2023. This business enhances the company's business prospects as it will be directly supplying to Maruti Suzuki India Limited (MSIL) for this model. The volumes for this model are expected to be significantly higher than the current supplies for TKML models, since Suzuki models typically enjoy mass appeal. An expectation of improved offtake as a result of the cross-badging agreement between Toyota and Suzuki provides comfort.

### Credit challenges

**Modest scale of operations and client concentration risk with supplies historically restricted to a single customer, TKML** – JOAIL's scale of operations currently remains small, with revenues of only Rs. 67 crore in FY2022 (Rs. 40.8 crore in FY2021). The scope for improvement in scale also remains restricted, given that supplies are limited to TKML at present, which is a marginal player in the domestic PV market (4.0% market share in FY2022) owing to its presence in the higher-end of the market. Though JOAIL's business profile is characterised by high client concentration risk due to a major portion of its revenues being derived from TKML, comfort is drawn from the company's success in gaining business for new models of TKML, including a model under the cross-badging agreement between Toyota and Suzuki.

**Volatility in revenues due to lumpy nature of tooling sales on new model launches** – JOAIL is involved in the production of different kinds of press parts, nuts/bolt welds, assembly parts and fuel pipes required in the automobile industry. Sale of components, assemblies and sub-assemblies drive most of its revenues. On the other hand, tooling sales are sporadic and linked to the launch of a new model. Accordingly, tooling revenues were high in FY2017 and FY2018 supported by launch of the new Innova, Fortuner and Yaris models, but remained negligible over FY2019 to FY2022 due to dearth of new models. Nevertheless, going forward, TKML will be launching two new models in FY2023, which would result in ~Rs. 115 crore tooling income for JOAIL during FY2023.

**Debt-funded capex resulted in moderation in credit metrics** – As on March 31, 2021, the company's balance sheet was healthy, with gearing levels of 0.2 time due to limited capex requirements over recent years. However, debt-funded capex of ~Rs. 62 crore incurred in FY2022 led to deterioration in the capital structure (adjusted total debt (excluding lease)/ TNW deteriorated to 1.9 times in FY2022). Coupled with a low operating profit because of low scale of operations, the adjusted

total Debt (excluding lease)/ OPBITDA remained high at ~24.0 times in FY2022 (-3.3 times in FY2021 due to operating losses). Nevertheless, the capex has now been completed and, going forward, the company's reliance on debt is expected to remain limited. Accordingly, the company's credit metrics are expected to improve gradually over the medium term, as the company starts to realise revenues from the new orders that have been secured from TKML.

## Liquidity position: Adequate

JOAIL's liquidity position is expected to remain **adequate**, supported by low utilisation in working capital facilities (average buffer of Rs. 8.9 crore against the average drawing power of Rs. 12.1 crore in the cash credit facilities during the 12-month period ending in June 2022), undrawn term loans of Rs. 7.5 crore and expectation of improvement in the cash flow generation aided by commencement of supplies for new projects. Against this, the company has limited debt repayments of ~Rs. 4.3 crore (including buyers credit of Rs. 3.8 crore) and limited capex requirements in FY2023.

## Rating sensitivities

**Positive factors:** Significant scale up in operations aided by new business from customers, while improving profitability indicators and debt coverage indicators would be critical for a rating upgrade. Specific credit indicators that could lead to upward revision in ratings include Total Debt/OPBITDA below 2.5x on a sustained basis.

**Negative factors:** The ratings may be downgraded in case of significant deterioration in the profitability indicators and credit metrics of the company because of higher-than-expected debt-funded capex or slower-than-expected ramp up of new businesses. Specific credit indicators that could lead to downward revision in ratings include DSCR below 1.4 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

## About the company

Incorporated in 2009, JBM Ogihara Automotive India Limited (JOAIL) is a 51:49 joint venture (JV) between JBM Auto Limited and Ogihara (Thailand) Co. Ltd. (OTC). The JV was formed for manufacturing and supplying steel stampings and sub-assembly of automotive sheet metal parts, such as under body panels, fuel filler and other assemblies for Toyota Kirloskar Motors Limited's (TKML) small car, Etios Liva (launched in 2011). The company has since gained business for other TKML models, such as Innova, Fortuner and other upcoming models. The company began commercial production from its plant at the TKM Onsite Supplier Park, Bangalore, from November 30, 2010. The second phase of the project began production from September 5, 2011, for supplying parts for TKML's car models.

## Key financial indicators (audited)

JOAIL Standalone	FY2021	FY2022*
Operating Income (Rs. crore)	40.8	67.2
PAT (Rs. crore)	-4.2	-1.2
OPBDIT/OI (%)	-3.7%	3.7%
PAT/OI (%)	-10.4%	-1.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	8.0
Total Debt/OPBDIT (times)	-4.9	31.1
Interest Coverage (times)	-2.0	4.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*Provisional financials

Source: Company, ICRA Research; All calculations are as per ICRA Research

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jul 19, 2022	May 26, 2022	-	Feb 22, 2021	Aug 30, 2019
1	Cash Credit	Long-term	17.00	NA	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Term Loans	Long-term	60.44	53.05	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Non Fund-Based Facilities	Short-term	4.00	NA	[ICRA]A3	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
4	Unallocated Limits	Long-term/Short-term	0.56	NA	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3
5	Fund based Limits	Long-term/Short-term	10.00	NA	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-
6	Interchangeable Limits	Short-term	(5.00)	NA	[ICRA]A3	-	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Non Fund-Based Facilities	Very Simple
Unallocated Limits	Not applicable
Fund based Limits	Simple
Interchangeable Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	17.00	[ICRA]BBB- (Stable)
NA	Term Loans-1	FY2019	NA	FY2023	0.44	[ICRA]BBB- (Stable)
NA	Term Loans-2	January 2022	NA	September 2027	35.00	[ICRA]BBB- (Stable)
NA	Term Loans-3	September 2021	NA	October 2027	25.00	[ICRA]BBB- (Stable)
NA	Non Fund-Based Facilities	NA	NA	NA	4.00	[ICRA]A3
NA	Unallocated Limits	NA	NA	NA	0.56	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	Fund based Limits	NA	NA	NA	10.00	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	Interchangeable Limits	NA	NA	NA	(5.00)	[ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure-2: List of entities considered for consolidated analysis – Not applicable

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