June 03, 2019

JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	81.35	71.35	[ICRA]AA (Stable); Reaffirmed
Term Loans	193.16	131.29	[ICRA]AA (Stable); Reaffirmed
Short-term Non-Fund based	40.00	75.00	[ICRA]A1+; Reaffirmed
Short-term Fund Based	52.50	62.50	[ICRA]A1+; Reaffirmed
Commercial Paper	15.00	15.00	[ICRA]A1+; Reaffirmed
Long-term Unallocated	126.78	30.00	[ICRA]AA (Stable); Reaffirmed
Short-term Unallocated	15.00	15.00	[ICRA]A1+; Reaffirmed
Total	**523.79**	**400.14**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the company's rating favourably factors in the amalgamation of JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited) (JIL) with its 49% associate company, JTEKT Sona Automotive India (JSAI; remaining 51% stake with JTEKT Corporation, Japan). ICRA notes the strong financial and business support from JIL's parent company, JTEKT Corporation (JTEKT), Japan, and its leading position as a key supplier of steering systems to passenger vehicle (PV) OEMs in India.

JIL received the final regulatory approvals for the amalgamation of JSAI in March 2019 and JSAI will be amalgamated into JIL retrospectively with effect from April 01, 2018. As per an earlier business alignment, JSAI was engaged in manufacturing column type electronic power steering (CEPS) systems, while JIL manufactured manual steering gears (MSGs), hydraulic power steering (HPS) and CEPS for PV OEMs in India. After the amalgamation, the entire steering system is manufactured under a single entity. This benefits the company in acquiring new business and improve its overall profitability metrics by reducing corporate overhead costs. JIL will also now have access to the Rs. 120 crore free cash balance of JSAI, which may be utilised to prepay some of its debt or to fund its capital expenditure, going forward.

The rating reaffirmation also factors in the strong business and financial support from its parent company. JTEKT supports JIL with its marketing efforts, new customer acquisition and technical support. JTEKT is part of the Toyota Group because of which JIL maintains almost 100% share of business with Toyota Kirloskar Motor Private Limited (TKML) in India. Further, the presence of a Japanese parent also helps the company in acquiring healthy share of business from other Japanese OEMs in India. As a JTEKT subsidiary, JIL has also received unsecured sanctions from Japanese banks with JTEKT's corporate guarantee at competitive interest rates.

The rating also factors in JIL's leading position in the steering system segment in India with strong presence in MSG, EPS and HPS systems. JIL continues to maintain healthy share of business with some of the leading PV OEMs in India, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra Limited (M&M), Honda Cars India Limited (HCIL), TKML and FIAT India.

Although JIL is a leading player in the steering system space, it faces stiff competition from the Rane Group, which operates through entities such as Rane Madras (for manual steering gears) and Rane NSK (for CEPS). Further, as part of their strategy to mitigate vendor concentration, OEMs tend to mitigate the risk by appointing more than one supplier. JIL's key customer, MSIL, has also been following this strategy, which has led to a decline in JIL's share of business with MSIL to 50-55% at the present date from ~60-70% a few years back.

JIL's business profile is characterised by high concentration on the domestic PV industry and dependence on select OEMs. To mitigate its concentration in the PV segment, the company had developed an electric power steering module for off-road vehicles and tractors. Although this segment has reported healthy revenue growth in the past few years, it continues to be a small contributor to JIL's overall revenues.

Outlook: Stable

ICRA believes JIL will continue to maintain its dominant position in the PV industry, although it also expects the revenue growth deceleration to be gradual because of the ongoing subdued demand for PVs in India, especially in H1 FY2020. The amalgamation of JSAI has further strengthened the company's business and financial profile. The outlook could be revised to Positive if JIL is able to substantially increase its exports business while maintaining its market position in India. The outlook could be changed to Negative if the company's financial profile deteriorates significantly or if it loses market share.

Key rating drivers

Credit strengths

Leading manufacturer of steering systems in India with strong share of business with PV OEMs – The company is the leading manufacturer of steering systems with a high share of business with several PV OEMs such as MSIL, M&M, HCIL and TKML. As a part of the Toyota Group, JIL has almost 100% share of business with TKML.

Well diversified product offerings with presence in PV and Utility Vehicle (UV) segments - The company has a diverse product offering including CEPS, HPS, MSG and driveline products. It caters to PV as well as UV segments. The company has also developed an electric power steering module for off-road vehicles and tractors, which has helped it diversify its business profile.

Majority stake owned by JTEKT, a prominent global steering system manufacturer - The company receives business and technical support from its parent company. Being a JTEKT (a Toyota Group company) subsidiary supports the company's financial flexibility via access to unsecured debt from Japanese banks.

Amalgamation of JSAI has strengthened the financial and business profile of the company - The amalgamation of JSAI has strengthened the company's financial and business profile by reducing corporate overhead costs, expanding product profile and access to the surplus cash on JSAI's balance sheet, which can be used to prepay some of its existing debt.

Credit challenges

The company lost business in a few key models because of rising competition in the steering systems industry – JIL faces stiff competition from other steering system manufacturers such as the Rane Group, because of which it has lost business in a few key models in the recent past.

High segment concentration with ~93% of sales generated by the PV sector – JIL generates approximately 93% of its net sales from PV OEMs, which makes it susceptible to the cyclicality in the PV industry. ICRA expects the revenue growth deceleration to be gradual because of the ongoing subdued demand for PVs in India.

Liquidity position

JIL has a strong liquidity position supported by surplus cash balance (Rs. 123.7 crore as on March 31, 2019), healthy cash accruals and moderate capex plans in the near-term. In addition, as a JTEKT subsidiary, it has access to unsecured sanctions from Japanese banks at competitive interest rates.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	JTEKT Corporation, Japan The ratings are based on implicit support from its parent company.
Consolidation / Standalone	The rating is based on consolidated financial statements of the issuer.

About the company

JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited) is a leading manufacturer of steering systems and driveline products for PV OEMs in India. The company commands market leadership position in the steering system segment in India with strong share of business with OEMs including Maruti Suzuki, M&M, Honda Cars, Toyota Kirloskar and Tata Motors. JIL is a domestic focused auto component manufacturer and generates almost 93% of its revenues from PV OEMs.

The entity was incorporated in 1984 by the Sona Group, in a technical and financial collaboration with JTEKT Corporation, Japan. The company manufacturers the entire range of steering systems and driveline products. The key components manufactured by the company include manual as well as power steering systems, which comprise steering gears and columns. The driveline product portfolio includes case differentials, axle components, rear axle assemblies and propeller shafts. JIL supplies these products to various PV OEMs. The company's manufacturing facilities are located at Gurgaon (Haryana), Dharuhera (Haryana), Chennai and Sanand (Gujarat). The company is contemplating setting up a new facility at Jalisana (Gujarat), which may be developed for MSIL's new plant in Gujarat.

In Q4 FY2017, JIL's technology partner, JTEKT, bought out 25.12% stake in its Indian partner, Sona Autocomp Holding Limited, and increased its shareholding in the company to 45.4% from 20.1%. It acquired a further 25% stake in JIL via a public open offer in Q1 FY2018. At present, JTEKT's stake in the company stands at 69.36%. The company has recently amalgamated its subsidiary, JTEKT Sona Automotive India (JSAI), with effect from Q4 FY2019.

Key financial indicators (audited)

Consolidated financial indicators	FY2018	FY2019
Operating Income (Rs. crore)	1,519.3	1,754.0
PAT (Rs. crore)	66.5	78.3
OPBDIT/OI (%)	14.0%	12.6%
RoCE (%)	16.0%	17.2%
Total Debt/TNW (times)	0.5	0.4
Total Debt/OPBDIT (times)	1.3	1.1
Interest coverage (times)	7.0	9.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount O/s* (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2018 Mar 2018	Date & Rating in FY2017 Feb 2017	Date & Rating in FY2016 Mar 2016
1	Cash Credit	Long Term	71.35	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]A+ (Stable)/ A1+
2	Term Loans	Long Term	131.29	98.8	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]A+
3	Short-term Non-Fund based	Short Term	75.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term Fund Based	Short Term	62.50	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short Term	15.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Unallocated	Long Term	30.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]A+ (Stable)
7	Unallocated	Short Term	15.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**As on March 31, 2019*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2017	9.8%	FY2023	34.00	[ICRA]AA(Stable)
NA	Term Loan 2	FY2016	9.4%	FY2022	20.67	[ICRA]AA(Stable)
NA	Term Loan 3	FY2017	10.65%	FY2023	27.50	[ICRA]AA(Stable)
NA	Term Loan 4	FY2016	10.2%	FY2021	20.12	[ICRA]AA(Stable)
NA	Term Loan 5	FY2015	9.6%	FY2020	15.00	[ICRA]AA(Stable)
NA	Term Loan 6	FY2014	10.15%	FY2020	14.00	[ICRA]AA(Stable)
NA	Cash Credit Limits	NA	NA	NA	71.35	[ICRA]AA(Stable)
NA	Short-term fund-based limits	NA	NA	NA	62.50	[ICRA]A1+
NA	Short-term non-fund based limits	NA	NA	NA	75.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	NA	15.00	[ICRA]A1+
NA	Long-term Unallocated Limits	NA	NA	NA	30.00	[ICRA]AA(Stable)
NA	Short-term unallocated limits	NA	NA	NA	15.00	[ICRA]A1+

Source: JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
JTEKT Fuji Kiko Automotive Limited	51%	Full Consolidation

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