

March 28, 2022

ZF Steering Gear (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	30.00	30.00	[ICRA]A+(Stable); reaffirmed
Long-term/Short-term non-fund based	20.00	20.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation for ZF Steering Gear India Limited (ZFI) continues to factor in its strong credit profile backed by its net-debt free position, minimal utilisation of working capital lines and strong liquidity in the form of free cash and liquid investments. The rating reaffirmation also takes into account ZFI's dominant position in the domestic power steering segment and established relationships with key Original Equipment Manufacturers (OEMs). ICRA notes that Robert Bosch Automotive Steering GmbH (RBAS), a major global steering system manufacturer, holds 25.89% stake in ZFI.

Although the company's operational performance was impacted in FY2021 by a sharp reduction in domestic end-user demand in the Medium & Heavy Commercial Vehicle (M&HCV segment, the company reported a 35% annualised growth in the revenue base in 9M FY2022 on the back of uptick in M&HCV demand as the pandemic disruptions gradually abated. Going forward, the company's revenues are likely to grow at a CAGR in line with the Commercial Vehicles (CV) and tractor industry outlook.

The ratings, however, remain constrained by the company's modest scale of operations compared to industry peers, susceptibility to the inherent cyclicity in the domestic M&HCV and tractor industry, and the constant need to upgrade and develop new technology-driven products.

The Stable outlook factors in ICRA's expectation that ZFI would continue to benefit from its strong business position with various OEMs, helping it record stable cash flows and maintain a strong credit profile.

Key rating drivers and their description

Credit strengths

Strong position in domestic steering systems industry for M&HCVs and tractors; established relationships with leading OEMs

– The Indian steering gear market is primarily dominated by three major players—viz., JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited; rated [ICRA]AA/Stable/A1+), Rane TRW Steering Systems Private Limited (Rane; rated [ICRA]AA-/Stable/A1+) and ZFI. While JTEKT is primarily present in the passenger vehicle (PV) segment, ZFI and Rane Group are mainly present in the CV and tractor segments. Overall, the domestic M&HCV and tractor steering systems market is primarily duopolistic, with ZFI and the Rane Group driving ~90% of the market share.

Comfortable capitalisation and strong liquidity position – ZFI is net debt-free, resulting in comfortable coverage indicators with Total Debt/ OPBDITA of 1.7 times and DSCR of 34.9 times as of March 31, 2021. Its liquidity position remains strong supported by free cash and liquid investments to the tune of ~Rs. 125 crore as on December 31, 2021. In the absence of any major capex plans, the capital structure and liquidity position are likely to remain strong over the medium term.

Credit challenges

Susceptible to inherent cyclicity in domestic CV and tractor segment; negligible presence in power steering segments of PV and tractor businesses – ZFI is a tier-I supplier, with most of its revenues coming from the CV segment. Akin to other players, the company is exposed to the cyclic nature of the industry it operates in. Nevertheless, its established market position and strong relationships with its clientele would enable the company to mitigate such challenges. The company primarily supplies power steering and mechanical steering systems. It has underperformed in the mechanical steering segment, which is its dominant segment, as demand is gradually shifting towards power steering, where ZFI has a weak market position. The company, however, has developed products like Hpass steering gear, whose volumes are slowly ramping up; likely mitigating this challenge to an extent. Further, steering systems, as critical automobile components, are subject to marginal changes in design and need technology investments to transition between emission norms or change in fuel to prevent obsolescence.

Liquidity position: Strong

The company has a **strong** liquidity profile, characterised by expectation of healthy cash flow from operations and cash and liquid investments to the tune of Rs. 125 crore as of December 31, 2021. In addition, the company has an adequate buffer of Rs. 30 crore in the form of unutilised working capital lines. The company does not have any term loans or major capital expenditure (capex) plans.

Rating sensitivities

Positive factors – The ratings can be upgraded with significant improvement in scale and return indicators (RoCE) on a sustained basis, while maintaining its current level of capitalisation and liquidity position.

Negative factors – There could be downward pressure on ratings if ZFI's operating performance deteriorates, leading to steady decline in profitability, or if its liquidity profile weakens over the medium term.

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

ZF Steering Gear (India) Limited was founded by the Munot family and ZF Lenkystene GmbH. Later, Robert Bosch Automotive Steering GmbH acquired ZF Lenkystene GmbH and renamed the company as Robert Bosch Automotive Steering GmbH. The company manufactures, assembles and deals in steering gears with an installed manufacturing capacity of 2.0 lakh mechanical steering gear units and 3.75 lakh hydraulic power steering gear units per annum. ZFI's manufacturing plants are at Shirur district in Maharashtra and Pithampur district in Madhya Pradesh.

The company's steering gears are supplied to various state transport undertakings as well as to heavy vehicles like dumpers and haulage trucks. As on December 31, 2021, the promoter group held 67.39% stake in the company wherein Munot family held 41.5% stake and RBAS held 25.89% stake.

Key financial indicators (audited)

ZFI Standalone	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	286.6	201.5	207.4
PAT (Rs. crore)	(0.3)	8.8	15.3
OPBDIT/OI (%)	11.5%	9.1%	11.6%
PAT/OI (%)	-0.1%	4.4%	7.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.2	--
Total Debt/OPBDIT (times)	0.1	0.2	--
Interest Coverage (times)	30.2	63.0	171.7

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 30,2022 (Rs. crore)	Current Rating	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019		
					March 28, 2022	Feb 19, 2021	Aug 03, 2020	Oct 25, 2019	June 10, 2019	Feb 28, 2019	Oct 30, 2018	Apr 05, 2018
1	Long-term Fund-based	Long-term	30.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)
2	Long-term/Short-term Non-fund based	Long-term and short term	20.00	--	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Negative)/ [ICRA]A1+					

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based / Non-fund Based Working Capital	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 analysing 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

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-term Fund based Limit	NA	NA	NA	30.00	[ICRA]A+(Stable)
NA	Long-term/ Short- term non-fund based	NA	NA	NA	20.00	[ICRA]A+(Stable)/ [ICRA]A1+

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

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