April 29, 2022

Jai Suspension Systems Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term: Fund based/Non-fund Based	45.00	48.50	[ICRA]AA- (Stable) /[ICRA]A1+ Reaffirmed
Total	45.00	48.50	

Instrument details are provided in Annexure-1;

Rationale

ICRA has taken a consolidated view of Jamna Auto Industries Limited (JAI) and its subsidiaries (including Jai Suspension Systems Private Limited, JSS, collectively referred to as the JAI Group), while assigning the credit ratings, given the common management and significant operational as well as financial linkages between the entities.

The reaffirmation in ratings factor in the healthy growth in revenues/scale of operations of the company in FY2022, aided by a revival in economic activity after the second Covid-19 wave in Q1 FY2022. The volumes of medium and heavy commercial vehicle's (M&HCV's/ truck's), the key end-user segment for the JAI Group, grew by nearly 49% in FY2022. The Group is expected to see similar growth, going forward, in line with the industry trend. The ratings continue to favourably factor in the Group's leadership position in the domestic leaf and parabolic spring market as well as its edge over its peers, aided by scale, competitive pricing and strategic proximity to its customers across its manufacturing locations in India. This has helped the Group to maintain a dominant share of business with most CV Original Equipment Manufacturers (OEMs) with its market share ranging within 65-70%. The ratings also take into account the various cost control measures undertaken by the management over the past few years, which have helped the Group in reporting relatively healthy margins during one of the worst industry downturns (FY2020-FY2021). Even though the automotive industry has been impacted by steep raw material price hardening in FY2022, the Group is expected to report healthy operating margins in FY2022 on the back of its cost efficiency measures and cost pass-through contracts with various customers.

ICRA continues to note the management's initiatives towards shifting the product mix towards value-accretive products, such as parabolic springs and lift axles, strengthening the distribution network and IT systems for after-market sales. The revenues from after-market, provide diversification from the OEMs sales and are margin accretive. The company is also expanding its product offerings (through trading or manufacturing) for aftermarket by adding allied products (U bolts, stabiliser bars, among others) as well as realigning production capacities to cater to the export demand. The Group's comfortable credit profile with healthy profitability and coverage metrics continue to support the ratings.

These strengths are partially offset by the JAI Group's significant dependence on the M&HCV segment, which exposes it to the cyclicality associated with the industry. ICRA notes its high client concentration with top two customers accounting for a predominant share of sales (57% and 60% of its sales revenue in FY2021 and FY2022 (provisional), respectively)—Tata Motors Limited (TML) and Ashok Leyland Limited (ALL). While the Group's client concentration risk is partly mitigated by the large market share of these OEMs and the Group's healthy share of business with them, ICRA takes comfort from the management's efforts to expand its share in the domestic after-market and exports markets. Moreover, the Group derives most of its revenues from a single product category, leaf springs, which is commoditised in nature. Despite the high product concentration risk, ICRA takes cognisance of the economies of scale that have supported the cost competitiveness, as well as the management's initiatives to expand its product coverage.

The Stable outlook on the long-term rating reflects ICRA's opinion that JAI will continue to benefit from its dominant business position with most CV OEMs, superior cost structure as well as increasing contribution of the replacement market to the total revenue. The healthy volume growth expected in the Group's end-user segment over the near to medium term is likely to translate into a healthy revenue growth for the company, thereby supporting its cash accruals and financial risk profile.

Key rating drivers and their description

Credit strengths

Strong business position with CV OEMs – JAI is the market leader in the domestic M&HCV OEM market for leaf springs, with a dominant share of its business coming from two of the leading CV OEMs, TML and ALL. The Group continues to maintain healthy business relations with the OEMs, as evident from a strong and stable share of their business over the years (JAI's market share has remained at 65-70% with some variations). With focus on quality as well as superior technology, JAI is expected to maintain its dominant position in the CV OEM market for springs.

Favourable shift in sales mix towards higher value-accretive products supports prospects – In recent years, JAI has witnessed a growth in revenue contribution from the higher value-accretive products such as parabolic springs. The contribution of parabolic springs to JAI's sales revenue has improved gradually to nearly ~28% in FY2022 from 9% in FY2011. In addition, the Group has introduced new products such as lift axles and air suspensions for CV OEMs. The shift in product mix has been critical over the years in substantially bringing down the break-even sales volume for JAI, allowing it to withstand cyclicality in the domestic CV industry. With JAI planning to expand its presence in the market for allied products, the same is likely to result in value addition over the medium term.

Strategic proximity to OEM customers provides competitive advantage – JAI's manufacturing plants are spread across eight locations in India, which are near all its customer locations. In comparison, its competitors have a limited presence in terms of geographical footprint as well as capacity, which is reflected by JAI's dominant market position. This has helped it to continue its position as India's largest spring manufacturer, which has enabled it to maintain healthy operating margins, owing to a competitive cost structure through scale economies, despite the commoditised nature of leaf springs.

Comfortable credit profile with healthy profitability and coverage metrics – JAI, on a consolidated level, continues to maintain a comfortable credit profile, evident from healthy coverage indicators and capital structure, with interest coverage of 19.8 times in FY2021 (73.4 times in 9M FY2022) and TOL/TNW of 0.5 times as on March 31, 2021. Moreover, JAI's favourable cost structure includes a high proportion of variable costs providing financial resilience, which is visible from an operating margin of 13.3% in FY2021, despite the sharp moderation in volumes. Even as the recent inflationary pressures have had a bearing on JAI's profitability in FY2022, the company's profitability continues to remain at healthy levels.

Credit challenges

High dependence on CV segment exposes JAI to cyclicality associated with the industry –JAI has significant dependence on the domestic M&HCV segment, which exposes it to the inherent cycle nature of the underlying industry. Despite the management's initiatives to develop a widespread network for the after-market segment, its ability to scale up its after-market supplies to a level that can offset any sharp decline in CV OEM volumes in case of any downturn, is yet to be demonstrated. However, JAI's ability to maintain profitability even during fiscals of sharp revenue moderation mitigates concerns to an extent.

High client and product concentration risks – ICRA notes that TML and ALL remain JAI's major customers, together contributing ~57% and ~60% to its sales revenue in FY2021 and FY2022(P), respectively, with VE Commercial Vehicles Ltd. (VECV) and Daimler India Commercial Vehicles Pvt. Ltd. (Daimler India) being JAI's other leading OEM clients. This results in high client concentration risk, which is partly mitigated by the strong market position of these OEMs and the Group's healthy share of business with them. The management's ability to increase content per vehicle with its key OEM customers also provides comfort. Even as the management has scaled up supplies of relatively high value-added parabolic springs during the past few years, JAI's revenues have primarily been derived from leaf springs, leading to high product concentration risk. However, the same is likely to moderate over the medium-term with JAI focussing on expanding its presence in the market for allied products.

Liquidity position: Adequate

JAI's liquidity is expected to remain **adequate**, evidenced by its cash and liquid investments of ~Rs. 20 crore and working capital facilities buffer of Rs. 493.5 crore (subject to drawing power) as of March 31, 2022. Additionally, the company is expected to generate healthy cash accruals, going forward, which is likely to further strengthen its liquidity profile. It is expected to incur capex of Rs. 100-125 crore in FY2023 towards new product development and modernisation of existing facilities and continue to have a healthy dividend outflow (40–50% of PAT), and is expected to fund the same through internal accruals. Moreover, the company does not have any long-term debt repayments and continues to enjoy healthy financial flexibility.

Rating sensitivities

Positive factors – Material revenue diversification through sustained scale-up in the after-market supplies to a level that can offset any sharp decline in CV OEM volumes, as well as a scale up in revenues from new product launches, may lead to a positive rating action.

Negative factors – The rating may be downgraded if there is a prolonged slowdown in the CV industry, which leads to deterioration in the Group's cash accruals and credit profile. Specific credit metrics that may trigger a downgrade include Total Debt/OPBDITA over 1.5 times on a sustained basis. High utilisation of working capital limits in relation to its drawing power or excess bundling up of LC repayments, leading to a weakness in liquidity profile, could also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Rating Approach –Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of JAI. As on March 31, 2021, JAI had three subsidiaries, which are enlisted in Annexure-2.

About the company

Incorporated in 1965, the Delhi NCR-based JAI manufactures conventional leaf springs, parabolic leaf springs, air suspensions and lift axles, predominantly for CVs. With a consolidated annual manufacturing capacity of 3,00,000 MT, the company remains India's largest and the world's third largest CV spring manufacturer. JAI's manufacturing facilities are located at Yamuna Nagar (Haryana), Chennai, Malanpur (Madhya Pradesh), Jamshedpur (Jharkhand), Hosur (Tamil Nadu), Pune (Maharashtra), and Sriperumbudur (Tamil Nadu). In FY2022(P), it generated ~79% of its sales from OEMs, followed by 20% and 1% from replacement and export segments, respectively. The company's mainstay, leaf springs, drive more than 90% to its sales, followed by other products such as lift axles and air suspensions. Its top three customers, viz., ALL, TML and Daimler India accounted for ~68% of its turnover in FY2022(P).

JAI is also a majority partner (99.9985% stake) in Jai Suspension Systems Private Limited (JSS), which has a plant at Pant Nagar (Uttarakhand). Another subsidiary, Jai Automotive Components Limited, has purchased land in Indore (Madhya Pradesh) to set up a plant for allied products. JAI is listed on BSE and NSE and the promoters, the Jauhar family, own 50.00% stake in the company.

Key financial indicators (audited- JAI)

Consolidated	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	1,145.1	1,089.4	1,092.0
PAT (Rs. crore)	47.9	73.0	84.0
OPBDIT/OI (%)	11.7%	13.3%	12.8%
PAT/OI (%)	4.2%	6.7%	7.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5	NA
Total Debt/OPBDIT (times)	1.1	0.1	NA
Interest Coverage (times)	7.3	19.8	73.4

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * limited audit;*

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 FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Apr 29, 2022	Apr 29, 2021	-	Mar 27, 2020	Aug 30, 2019
1	Fund-Based/ Non-Fund Based	Long Term/ Short Term	48.50		**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	-	**[ICRA]AA- (Negative)/ [ICRA]A1+**	**[ICRA]AA- (SO) (Stable)/ [ICRA]A1+ (SO)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – 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 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

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-term/Short-term: Fund based/Non-fund Based	NA	NA	NA	48.50	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	JAI Ownership	Consolidation Approach
Jamna Auto Industries Limited	100.00% (Parent entity)	Full Consolidation
Jai Suspension System Private Limited	99.99% (Rated entity)	Full Consolidation
Jai Suspension Limited	100.00%	Full Consolidation
Jai Automotive Components Limited	100.00%	Full Consolidation

Source: *annual report*

Note: *ICRA has taken a consolidated view of the parent (JAI), its subsidiaries and associates while assigning the ratings.*

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