June 17, 2022

# Aptiv Components India Private Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund/Non Fund-based Limits | 80.00 | 80.00 | [ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed |
| **Total** | **80.00** | **80.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The reaffirmation of ratings takes into consideration the continued strong operating and financial performance of Aptiv Component India Private Limited (ACIPL), driven by its improving share of business (SoB) and customer diversification in the electrical distribution systems (EDS; wiring harness business) division and ongoing expansion in the technology centre (TCI) business. The ratings also continue to favourably factor in ACIPL's strong parentage as a wholly-owned subsidiary of Aptiv PLC (rated Baa2 Stable by Moody's), its diversified product portfolio and its strong credit profile.

ACIPL operates through three major divisions in India—EDS (drove ~80%[1] of revenues in FY2022), advanced safety and user experience (ASUX; ~2.5%) and TCI (~17%), which is a captive software development centre that provides engineering services to its parent company, Aptiv PLC, and its entities globally. ICRA notes that the company's performance has steadily improved over the last few years aided by the organic growth of its customers and expansion of its customer base. It registered a healthy revenue growth of ~66.5%[1] to ~Rs. 2,547 crore in FY2022 (provisional financials), aided by healthy growth in EDS and TCI divisions. The OPM also improved to ~14% in FY2022 from 10.5% in FY2021 aided by benefits of operating leverage and the management's cost control measures. ICRA notes that given the healthy cash accruals, the company repatriated the compulsorily convertible debentures (CCDs) of ~Rs. 88 crore to its parent company in FY2022. Nevertheless, it continues to maintain a strong credit profile, characterised by healthy cash flow generation, nil debt, unutilised working capital facilities and surplus cash balances. Despite moderate capex plans over the near-term, ICRA expects ACIPL's credit indicators to remain robust going forward as well, aided by expectation of healthy cash flows from operations.

The long-term rating assigned remains constrained by the company's high segment concentration on the PV sector, vulnerability of profitability to foreign exchange fluctuations due to high raw material import content (in the EDS division in particular) and stiff competition from both domestic and international players. The risks are mitigated to an extent by the company's established relationships with its various customers and its diversified business profile.

The Stable outlook on the long-term rating reflects ICRA's expectation that ACIPL will continue to benefit from its strong parentage as a subsidiary of Aptiv PLC. Moreover, ICRA believes that the company will maintain its comfortable business and financial profile, going forward, supported by moderate capex plans, healthy SoB with various OEMs and business linkages with the Aptiv Group, especially in the TCI division.

## Key rating drivers and their description

### Credit strengths

**Strong business, technology and financial support from parent entity, Aptiv PLC -** The company receives significant support from its ultimate parent company, Aptiv PLC, in the form of technical knowhow, which has aided its revenue growth prospects

[1] *All figures for FY2022 are provisional*

over the years, helping it gain business from various OEMs. ICRA also expects its parent to extend financial support to ACIPL, if the need arises.

**Diversified product portfolio of integrated wiring harnesses, body control modules, immobilisers and audio systems, etc. –** ACIPL operates through three major divisions in India—EDS (drove ~80% of revenues in FY2022), TCI (~17%) and ASUX (~2.5%). The diversified product profile insulates the company to an extent from a downturn in demand for a particular product segment, while also aiding its revenue growth prospects. The company had won several new businesses in the EDS division over the last two years. The ramp up in supplies for these new models, healthy demand for several existing models and revival in demand in the automobile industry helped the division report a robust revenue growth over the last two years (~50% YoY in FY2021 and ~80% YoY in FY2022). The company continues to win new businesses in the EDS division and continues to enjoy a healthy SoB with various OEMs, which will drive revenue growth over the near to medium term. ACIPL's technical centre provides R&D and technology services to various Group companies globally and acts as a technical support system for the India business as well. Aided by the ongoing workforce expansion in the division, it reported a healthy revenue growth of ~36% to Rs. 434 crore in FY2022; ICRA expects the revenues from this division to further scale up over the near-term. The ASUX division, which manufactures components such as immobilisers, navigation systems, body control modules and infotainment systems for PVs, reported a marginal revenue growth of ~2% in FY2022. Nevertheless, the division continues to have a healthy revenue potential, given its diverse portfolio and technical support from Aptiv PLC, which has a strong global presence in this division.

**Improving market share in wiring harness segment provides healthy revenue visibility –** The company's scale has improved significantly over the last two years aided by new business from its existing customers as well as acquisition of new customers, especially in its EDS division. The EDS division grew by ~50% in FY2021 and further by ~80% in FY2022 to Rs. 2,052 crore, driven by new business wins over the last two years, and healthy uptick in Tata Motors Limited's (TML) sales. Over the years, the company has improved its SoB with its key customers aided by its presence in many of the higher volume models of OEMs, which has supported its business prospects. Going forward, the company's growth in the EDS division will be driven by new model wins and presence with several bestselling models. The company has also won wiring harness business for upcoming electric vehicle (EV) models of some domestic PV OEMs.

**Healthy financial risk profile with no debt and surplus cash balances –** The company's financial risk profile is strong, characterised by nil debt, unutilised working capital facilities and surplus cash balances (~Rs. 100 crore as on May 31, 2022). This is further supported by moderate capital expenditure requirements and healthy cash flows from operations. ICRA notes that the company had received CCDs of ~Rs. 88 crore from its parent company in October 2012, which were repatriated in FY2022.

## Credit challenges

**Susceptibility of operating margins to foreign exchange fluctuations due to high raw material import content –** The company has high import content in the EDS division (30-35% of raw material costs), as it imports several parts such as engine cables, fuses and clips, which exposes it to foreign exchange risk. However, the risk is mitigated to an extent by its pass-through clause with customers and the currency hedging undertaken by its parent company.

**Stiff competition from domestic and international players; mitigated to an extent by established customer relationships –** ACIPL faces significant competition from domestic and international players for its wiring harness as well as advanced safety and user experience products. Although the EDS division has grown significantly over the last three years, its scale of operations remains lower than the market leader in the wiring harness business for the domestic PV industry, Motherson Sumi Wiring India Limited (MSWIL). Along with its group company, Kyungshin Industrial Motherson Limited (KIML), MSWIL enjoys leadership position in the domestic PV industry and healthy SoB in the domestic CV industry. Besides MSWIL and KIML, ACIPL also faces competition from other domestic incumbents, such as Minda Furukawa and Yazaki. Nevertheless, ACIPL's established relationship with its customers continues to support its business prospects and mitigate the risk to some extent.

**High segment concentration in PV sector; diversified customer mix mitigates risk to an extent –** Most of ACIPL's sales (excluding from TCI) is generated by the domestic PV segment, which makes its earnings susceptible to the performance of the domestic PV industry. However, the high segment concentration risk is partially mitigated by the company's diversified customer mix with its top five customers accounting for ~74% of its total sales in FY2022, as well as by its presence in the TCI business (~17% of revenues in FY2022).

## Liquidity position: Strong

ACIPL's liquidity position is **strong,** supported by healthy cash flows, surplus cash balances (~Rs. 100 crore as of May 31, 2022) and unutilised working capital limits of Rs. 80.0 crore. ICRA expects the company to maintain its strong liquidity profile going forward, aided by expectation of healthy cash flows from operations, moderate capex plans (~Rs. 225 crore in FY2023 primarily towards capacity enhancements in the EDS division and setting up a new facility for the TCI business) and no debt repayments.

### Rating sensitivities

**Positive factors –** Improvement in the credit profile of the parent company could trigger a rating revision. The company's ability to strengthen its business profile by securing new businesses further improve its market share with PV OEMs or diversification into other automotive segments, while maintaining comfortable profitability and comfortable credit metrics will also be considered favourably for an upward revision in the ratings.

**Negative factors –** The ratings could face a downward pressure in case of significant weakening in the credit profile of its parent company or weakening of operational linkages with the parent company. The ratings could also be downgraded in case of deterioration in the company's financial profile due to loss of business or any large debt-funded capex.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Auto-component Manufacturers<br>Impact of Parent or Group Support on an Issuer's Credit Rating |
| **Parent/Group Support** | Parent company: Aptiv PLC (rated Baa2/Stable by Moody's)<br>The rating assigned to ACIPL factors in the very high likelihood of its parent entity, Aptiv PLC, extending financial support to it because of the close business linkages between them. ICRA also expects Aptiv PLC to be willing to extend financial support to ACIPL out of its need to protect its reputation from the consequences of a group entity's distress. |
| **Consolidation/Standalone** | The rating is based on standalone financial statements of the issuer. |

## About the company

ACIPL (erstwhile Delphi Automotive Systems Private Limited) was incorporated in April 1995 as a wholly-owned subsidiary of Aptiv PLC (erstwhile Delphi PLC). The company operates through three major divisions in India—a) EDS (represents the wiring harness business, which drove ~80% of its revenues in FY2022), b) ASUX (~2.5%) and c) TCI (~17%), which is a captive software development centre that provides engineering services to Aptiv entities globally.

ACIPL is positioned as a leading automotive supplier in the wiring harness business. It has a well-diversified product portfolio as well as customer profile with OEMs, such as Mahindra and Mahindra (M&M), TML, Ford, Hyundai Motor India Limited (HMIL), FCA, Volkswagen (VW) and MG Motors. ACIPL has four manufacturing facilities—two in Chennai, and one each in Dharuhera (Haryana) and Pune (Maharashtra). Most of the models serviced by ACIPL are PVs.

## Key financial indicators (audited)

| ACIPL Standalone | FY2020 | FY2021 | FY2022* |
|---|---|---|---|
| Operating Income (Rs. crore) | 1,154.4 | 1,529.5 | ~2,550 |
| PAT (Rs. crore) | 97.4 | 69.3 | |
| OPBDIT/OI (%) | 13.8% | 10.5% | ~14% |
| PAT/OI (%) | 8.4% | 4.5% | |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.6 | 0.8 | |
| Total Debt/OPBDIT (times) | 0.5 | 0.6 | 0.0 |
| Interest Coverage (times) | 14.1 | 13.1 | |

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

*Source: Company, ICRA Research; *Provisional numbers. 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 March 31, 2022 (Rs. crore) | Date & Rating in | Date & Rating in FY2022* | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | June 17, 2022 | Aug 17, 2021 | Sep 16, 2020 | Jun 10, 2019 |
| 1 | Fund/Non Fund-based Limits | Long-term and short term | 80.0 | -- | [ICRA]AA- (Stable)/ [ICRA]A1+ | [ICRA]AA- (Stable)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ |

*Update on details of lender facilities was published on Jul 23, 2021

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Fund/Non Fund-based 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 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](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 | Fund/Non Fund-based Limits | NA | NA | NA | 80.00 | [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 – Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

## ICRA Limited

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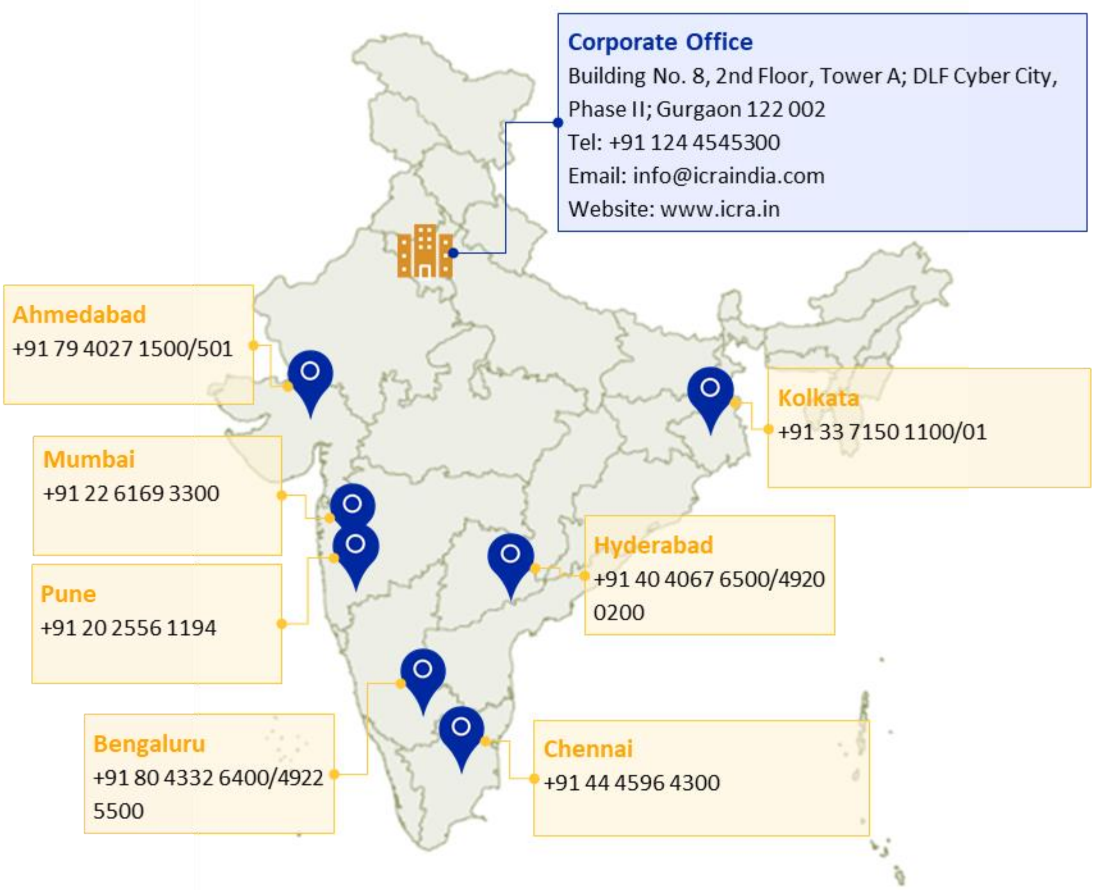




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