April 27, 2023

Jamna Auto Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	90.00	90.00	[ICRA]AA-(Stable) reaffirmed
Long-term/ Short -term – Fund based/ Non-fund based working capital	460.00	460.00	[ICRA]AA-(Stable) /[ICRA]A1+ reaffirmed
Total BLR	**550.00**	**550.00**	
Commercial Paper#	**100.0**	**100.0**	[ICRA]A1+ reaffirmed

**Instrument details are provided in Annexure-1; #Carved out of existing working-capital limit*

Rationale

ICRA has taken a consolidated view of Jamna Auto Industries Limited (JAI/company), and its subsidiaries (collectively referred to as the JAI Group), while assigning the credit ratings, given the common management and significant operational as well as financial linkages among the entities.

The ratings reaffirmation factors in the company's healthy growth in revenues and scale of operations in FY2023, aided by a rise in demand in the commercial vehicle (CV) industry amid an improvement in the overall macroeconomic environment. The volumes of medium and heavy commercial vehicles (M&HCVs/ trucks), the key end-user segment for the JAI Group, rose by nearly 25-30% in FY2023 and are likely to increase at a steady pace in FY2024, thereby leading to healthy growth prospects for the Group. The ratings continue to favourably factor in the Group's leadership position in the domestic leaf and parabolic spring market, aided by scale, competitive pricing and strategic proximity to its customers across its manufacturing locations in India. This has helped the Group maintain a dominant share of business (SOB) with most CV original equipment manufacturers (OEMs), and its market share in the leaf spring segment is estimated to stay in the range of 60-65%. However, the operating margins of the Group are estimated to have declined marginally on a sequential basis in FY2023 as the automotive industry was impacted by a steep hardening of raw material prices and other inflationary pressure over FY2022-FY2023. Nonetheless, JAI's margins remain healthy, aided by the Group's cost efficiency measures and raw material price hike pass-through contracts with various customers. Further, the company expects to execute conversion costs pass-through agreement with one of its top customers in FY2024, which is likely to improve its margins.

ICRA continues to note the management's initiatives towards shifting its product mix towards value-accretive products such as parabolic springs and lift axles and strengthening the distribution network for after-market sales. The revenues from after-market provide diversification from the sales to OEMs and are margin accretive. The company is also expanding its product offerings (through trading or manufacturing) for the after-market by adding allied products (U bolts, stabiliser bars, among others) and is realigning its production capacities to cater to the export demand. Its sales from parabolic springs (which offer higher margins than conventional springs) have been increasing on a YoY basis and stood at ~34% of the overall sales in FY2023 (increased from 28% in FY2022). The Group further plans to expand its manufacturing capacity and is in the process of setting up four new plants across India with commercial production likely to commence during March 2023-June 2024 at these facilities. Among these, the Group plans to incur significant capex of ~Rs. 200-220 crore towards its parabolic spring plant at Adityapur, Jharkhand (to be set up under Jai Suspension Limited), which is likely to be funded largely by internal accruals. The Group's comfortable credit profile with healthy profitability and coverage metrics continue to provide comfort and support the ratings.

The Group's 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 the Group's high client concentration, with the top two customers accounting for a predominant share of sales (62% of its sales in 9M FY2023 [provisional]).Tata Motors Limited (TML) and Ashok Leyland Limited (ALL) are its top customers. While the Group's client concentration risk is partly mitigated by the strong market share of these OEMs and the Group's healthy SOB with them, ICRA also takes comfort from the management's efforts to expand its share in the domestic after-market and exports markets. ICRA notes that 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, which supported cost competitiveness, as well as the management's initiatives to expand its product coverage.

A 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, a superior cost structure as well as increasing contribution of the replacement market to the total revenue. A steady 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 relationships with the OEMs, as evident from a strong SOB maintained over the years (JAI's market share has remained at 60-65% with some variations). While there was some decline in business with ALL in FY2023 as the company focussed on providing relatively higher-margin products, the company expects it to improve in the near term with increased supplies of parabolic springs. 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 growth prospects – In the recent years, JAI has witnessed a growth in revenue contribution from the higher value-accretive products, in terms of margins, such as parabolic springs. The contribution of parabolic springs to JAI's sales revenue has improved gradually to nearly ~34% in FY2023 from 9% in FY2011. In addition, the Group also achieved healthy sales from lift axles and trailer suspensions for CV OEMs in FY2023, which is likely to improve further. 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 OEMs provides competitive advantage – JAI's existing eight manufacturing plants as well as its new four plants (in construction phase) in India, are all located near its customers' units. 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 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 economies of scale despite the commoditised nature of leaf springs.

Comfortable credit profile with healthy profitability and coverage metrics – JAI, at a consolidated level, continues to maintain a comfortable credit profile, evident from its healthy coverage indicators and capital structure, with an interest coverage of 55.0 times in FY2022 (101.0 times in 9M FY2023) and TOL/TNW of 0.7 times as on March 31, 2022. The company does not have any long-term external debt on its books as of December 2022 and primarily utilises supplier and customer bill discounting limits. Though the company has relatively larger capex plans in the next two years, it plans to fund the same through internal accruals with low dependence on external term debt. Although the recent inflationary pressure had a bearing on its profitability in FY2023, the company's profitability continues to remain at healthy levels. An improvement in margins is also expected, going forward, aided by a steady demand growth and easing up of commodity costs.

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 cyclical nature of the underlying industry. Despite the management's initiatives to develop a wide network for the replacement market segment (~20% sales from after-market in FY2023 [provisional]), 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 its 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 ~62% to its sales revenue in FY2022 and 9M FY2023(P), respectively, with VE Commercial Vehicles Ltd. and Daimler India Commercial Vehicles Pvt. Ltd. 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. 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 (contributes ~90% to its sales), leading to a 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, supported by healthy cash flows, limited utilisation of fund-based working capital limits with availability of working capital buffer of ~Rs. 140 crore as of February 2023 (capped by the extent of drawing power) and unencumbered cash and liquid investments of ~Rs. 50 crore as on March 31, 2023. Additionally, the company is expected to generate healthy cash accruals, going forward, which is likely to further support its liquidity profile. It is expected to incur capex of Rs. 200-250 crore in FY2024 towards setting up new plant, capacity expansion at existing facilities as well as new product development and continue to have a healthy dividend outflow (40–50% of PAT). These are expected to be funded through internal accruals. Moreover, the company does not have any long-term debt repayment 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 an increase in revenues from new product launches, may lead to a positive rating action.

Negative factors – The ratings may be downgraded if there is a slowdown in the CV industry, leading to a 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, 2022, the company had three subsidiaries, which are enlisted in Annexure-2.

About the company

Incorporated in 1965, Delhi-NCR based Jamna Auto Industries Limited (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 is India's largest and the world's third largest CV spring manufacturer. JAI's manufacturing facilities are located at Yamuna Nagar (Haryana), Chennai (Tamil Nadu), Malanpur (Madhya Pradesh), Jamshedpur (Jharkhand), Hosur (Tamil Nadu), Pune (Maharashtra), and Sriperumbudur (Tamil Nadu) and others. In 9M FY2023, it generated ~80% of its sales from the OEM segment, followed by 19% and 1% from replacement and exports segments, respectively. The company's mainstay, the leaf spring segment, drives ~90% of its sales, followed by other products such as lift axles, air suspensions and stabiliser bars etc. Its top three customers viz Ashok Leyland Limited (ALL), Tata Motors Limited (TML) and Daimler India Commercial Vehicles Pvt. Ltd. (Daimler India) accounted for ~69% of its turnover in 9M FY2023.

JAI holds a majority stake (99.99%) in Jai Suspension Systems Private Limited (JSS), which has its plant at Pant Nagar (Uttarakhand), apart from two other wholly-owned subsidiaries, Jai Suspensions Limited and Jai Automotive Components Limited. JAI is listed on BSE and NSE and the promoters, Jauhar family, owns a 50% stake in the company.

Key financial indicators (audited)

JAI Consolidated	FY2021	FY2022	9M-FY2023
Operating income	1,081.9	1,720.0	1,691.4
PAT	73.0	140.8	115.9
OPBDIT/OI	12.7%	13.3%	10.8%
PAT/OI	6.7%	8.2%	6.9%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	-
Total debt/OPBDIT (times)	0.9	0.8	-
Interest coverage (times)	18.8	55.0	101.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; balance sheet figures not available for 9M FY2023; customer bill discounting included in debt; company also had supplier bill discounting (in form of short-term borrowings availed from banks) of Rs. 103.2 crore as of March 2022 which is not included in debt as per financial statements

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 27, 2023	Apr 29, 2022	Apr 29, 2021	-
1	Fund-Based/ Non-Fund Based	Long Term/ Short Term	460.00		[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-
2	Proposed Term Loans	Long Term	90.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-
3	Commercial Paper	Short Term	100.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Fund-Based/ Non-Fund Based	Long Term	-	-	-	-	[ICRA]AA- (Stable)	-
5	Unallocated	Long Term/ Short Term	-	-	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Proposed Term Loan	Simple
Long-term/ Short -term – Fund Based/Non-fund based Working Capital	Simple
Commercial Paper	Very 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	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	460.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Long-term: Proposed Term loan	NA	NA	NA	90.00	[ICRA]AA- (Stable)
NA	Commercial Paper	Yet to be placed			100.00	[ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

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

Source: JAI annual report FY2022

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

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