June 27, 2023

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-I*

Rationale

The reaffirmation of ratings takes into consideration an expectation of continued strong operating and financial performance of Aptiv Component India Private Limited (ACIPL), driven by its healthy share of business (SoB) and customer diversification in the electrical distribution systems (EDS; wiring harness business) division and ongoing workforce 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 (constituted ~80% of revenues in FY2023), advanced safety and user experience (ASUX; ~1%) and TCI (~18-19%), 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 ~38% to ~Rs. 3,640 crore in FY2023 (provisional financials), aided by healthy growth in EDS and TCI divisions. Going forward, the company's growth in the EDS division is expected to be driven by new model wins, including electric vehicle (EV) models, and presence with several high selling models. In addition, the ongoing workforce expansion in the TCI division enhances the company's revenue prospects over the medium term.

The company continues to maintain a strong financial risk profile and liquidity position characterised by nil debt, surplus cash balances (~Rs. 275 crore as of May 2023) and unutilised working capital limits. 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 remains constrained to an extent by the company's high segment concentration on the passenger vehicle (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, helping it record healthy earnings, and maintain its comfortable business and financial profile, going forward.

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 over the years, helping it gain business from various OEMs. ICRA also expects the parent entity 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 (~80% of revenues in FY2023), TCI (~18-19%) and ASUX (~1%). The diversified product profile insulates the company to an extent from a downturn in demand for any particular product segment, while aiding its revenue growth prospects. ACIPL has reported a robust revenue growth in its EDS division over the last three years supported by business wins for new models, healthy demand for several existing models and revival in demand in the automobile industry. 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 ~41% in FY2023; ICRA expects the revenues from this division to further scale up over the near-term. The revenues from the ASUX division, which manufactures components such as immobilisers, navigation systems, body control modules and infotainment systems for PVs, remained muted in FY2023. 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.

Healthy market share in wiring harness segment and ongoing expansion in TCI division provides strong revenue visibility – The company's scale has improved significantly over the last three 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 ~37% YoY in FY2023 aided by underlying demand drivers of the PV industry and robust demand for the models serviced by ACIPL. 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 is expected to be driven by new model wins, including EV models, and presence with several high selling models. In addition, the ongoing workforce expansion in the TCI division enhances ACIPL's revenue prospects over the medium term.

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. 275 crore as on May 31, 2023). This is further supported by moderate capex requirements and healthy cash flows from operations.

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 on a quarterly basis.

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 Electric Pvt. Ltd. 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 division) are 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 (~18-19% of revenues).

Liquidity position: Strong

ACIPL's liquidity position is strong, supported by healthy cash flows, surplus cash balances (~Rs. 275 crore as of May 31, 2023) 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. 200 crore in FY2024) 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 and 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 Rating Methodology for Auto-component Manufacturers
Parent/Group support	Parent company: Aptiv PLC (rated Baa2/Stable by Moody's) 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

Aptiv Components India Private Limited (erstwhile Delphi Automotive Systems P 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) electrical distribution systems (which represents the wiring harness business that drove ~80% of its revenues in FY2023), b) technology centre (~18-19%), which is a captive software development centre providing engineering services to Aptiv entities globally, and c) advanced safety and user experience (~1%).

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, TML, Ford, Hyundai Motor India Limited, Volkswagen and MG Motors. ACIPL has six manufacturing facilities—three in Chennai, one in Dharuhera (Haryana) and two in Pune (Maharashtra). Most of the models serviced by ACIPL are PVs.

Key financial indicators (audited)

ACIPL Standalone	FY2021	FY2022
Operating income	1,529.5	2,634.6
PAT	69.3	270.7
OPBDIT/OI	10.5%	17.5%
PAT/OI	4.5%	10.3%
Total outside liabilities/Tangible net worth (times)	0.8	0.9
Total debt/OPBDIT (times)	0.6	0.3
Interest coverage (times)	13.1	33.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. crore

Source: Company, ICRA Research; 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 27, 2023	June 17, 2022	Aug 17, 2021	Sep 16, 2020
1	**Fund-based/Non Fund-based Limits**	Long term and short term	80.0	--	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]A+ (Stable)/ [ICRA]A1+**

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 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	**Fund-based/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 II: 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.

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