

September 28, 2023

ZF Rane Automotive India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	83.38	83.38	[ICRA]AA-(Stable); reaffirmed
Long-term Fund-based (CC)	205.00	205.00	[ICRA]AA-(Stable); reaffirmed
Short-term Interchangeable	(230.00)	(230.00)	[ICRA]A1+; reaffirmed
Long-term/ Short-term – Unallocated	47.12	47.12	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	335.50	335.50	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of ZF Rane Automotive India Private Limited (ZFRAIPL/ the company) and ZF Rane Occupant Safety Systems Private Limited (ZFROSSPL) with ZFROSSPL being a 100% subsidiary of ZFRAIPL and both the companies having strong operational and financial linkages between them.

The rating action considers the healthy operational profile of ZFRAIPL, its strong financial performance in FY2023 and ICRA's expectations that the same will continue going forward as well. ZFRAIPL has a diversified product portfolio of steering gears and pumps, airbags and seat belts, mitigating product-specific risks to a large extent. It is an established player in its product segments and derives technological support from its JV partner, ZF Automotive J.V. US LLC (part of ZF Friedrichshafen AG, which is a reputed global auto component supplier). ZFRAIPL has comfortable debt metrics and liquidity profile, and this is likely to continue going forward as well.

ZFRAIPL posted a 38.0% YoY growth in revenues in FY2023 and 8.2% YoY growth in Q1 FY2024, reporting revenues of Rs. 1,847.6 crore and Rs. 499.8 crore in FY2023 and Q1 FY2024, respectively. The revenue growth was primarily aided by industry demand pick-up, premiumisation of products and incremental revenues from new businesses. The anticipated healthy growth for safety-critical auto components, stemming from higher content per vehicle because of progressive regulatory tightening and voluntary measures for improvement in vehicle safety will augur well for the company. Also, the strategic acquisition of 1% stake by ZF Automotive J.V. US LLC in the JV has improved access to ZF's technological and production capabilities, in turn translating into incremental business opportunities for the company. ZFRAIPL reported operating margins of 10.3% in FY2023 and 9.5% in Q1 FY2024 (as against 8.9% in FY2022), supported by benefits from improved operating leverage and cost-optimisation initiatives including localisation. Its debt metrics remained comfortable, supported by healthy accruals, despite increase in net debt levels in last 12-18 months.

The company has consolidated capex plans of Rs. 420 crore during FY2024–FY2026 towards capacity enhancement, localisation and maintenance. The capex is expected to be funded through a combination of internal accruals and debt beyond internal accruals. ICRA expects the capitalisation and coverage indicators to remain comfortable over the medium term, despite the capex, aided by healthy improvement in profits and scheduled repayment of term loans. The company's liquidity position is also expected to remain adequate over the medium term.

ZFRAIPL has high customer concentration with its top five customers generating ~70% of revenues. This exposes the company's revenues to volatility arising from any slowdown in orders from its prime customers. Nevertheless, the company's established presence, long validation/testing cycles in safety-critical products and ZFRAIPL's ability to add new customers mitigate the risk to a large extent. Also, while any issues and consequent recalls in products manufactured by ZFRAIPL could result in loss of business opportunities, ICRA notes that the company has not had any instances of product recalls historically. Further, migration from hydraulic power steering (HPS) to electronic power steering (EPS) in the Commercial Vehicle (CV) space could

result in loss of business opportunities. The company is working on EPS for CV segment, to equip itself as an early mover for the technology.

Key rating drivers and their description

Credit strengths

Financial and operational flexibility as part of the Rane Group; technology support from ZF Automotive J.V. US LLC (ZF) – ZFRAIPL is a 49:51 JV between RHL and ZF Automotive J.V. US LLC. The company is one of the key entities of the Chennai-based Rane Group, well known in both the domestic and international auto ancillary space, with cumulative revenues of over Rs. 6,800 crore in FY2023. The company also derives technology support from ZF Automotive J.V. US LLC (part of ZF Friedrichshafen AG, a reputed global auto component supplier). The strategic acquisition of 1% stake by ZF Automotive J.V. US LLC in the joint venture in December 2021, has improved access to ZF Friedrichshafen AG's technological and production capabilities, in turn translating into incremental business opportunities for the company.

Diversified product profile; healthy domestic-export mix – ZFRAIPL manufactures hydraulic power steering gears, pumps and reservoirs under the steering gear division (SGD), and airbags, seat belts and cushions under the occupant safety division (OSD). The SGD products constituted ~48% of its FY2023 revenues, while OSD contributed the rest. Within OSD, airbags and seat belts contributed 28% and 24% to the overall revenues, respectively. The company also derives a healthy share of its revenues from exports (~32% in FY2023, primarily under OSD). The diverse product portfolio and healthy domestic-export mix mitigate the vulnerability of ZFRAIPL's revenues to product or geography specific risks to a large extent. Also, ZFRAIPL is likely to benefit from the anticipated healthy growth for safety-critical auto components, stemming from higher content per vehicle because of progressive regulatory tightening and voluntary measures for improvement in vehicle safety.

One of the leading players in hydraulic steering gears and an established player in airbags and seat belts in India; healthy addition of new businesses – ZFRAIPL is a tier-I supplier of automobile components, catering to reputed OEMs in the passenger vehicle (PV)/ utility vehicle (UV) and CV industries. Hydraulic power steering is primarily used in CVs and UVs, and ZFRAIPL is one of the two major players in the space. ZFRAIPL is also a reputed player in airbags and seat belts and had healthy new businesses / customer additions in the last 1-2 years. While ZFRAIPL's steering gear division is likely to benefit from the growth in the domestic CV industry, ICRA expects ZFRAIPL's occupant safety division to exhibit strong revenue growth, going forward, driven by healthy auto volumes, new business wins and higher safety content per vehicle in the near to medium term.

Comfortable capital structure and coverage metrics – ZFRAIPL's capitalisation and coverage indicators are comfortable, supported by healthy accruals over last few years. The company's net debt levels have increased in the last 12-18 months (Rs. 294.6 crore as on June 30, 2023, rising from Rs. 170.9 crore as on March 31, 2022) because of debt-funded capex and higher working capital requirement with top line growth. However, increase in profits and accruals provides comfort. The company's net gearing stood at 0.6 time as on June 30, 2023, while its interest coverage was 16.2 times and net debt/OPBITDA was 1.6 times in FY2023. ZFRAIPL has sizeable debt-funded capex plans over the next two to three years, and this is likely to increase debt from earlier levels. Nevertheless, ICRA expects the capitalisation and coverage indicators to remain comfortable over the medium term, aided by healthy improvement in profits and scheduled repayment of term loans.

Credit challenges

Earnings exposed to industry cyclicality and forex fluctuations – ZFRAIPL is a tier-I supplier, deriving majority of its revenues from the PV segment (over 55% of the revenues in FY2023), while a large part of the balance revenues is generated by the CV segment (~36%). Akin to other auto component players, the company is exposed to the cyclicality inherent to the automobile industry. Nevertheless, healthy demand for ZFRAIPL's products and its healthy order book position mitigate the risk to a large extent. Further, the company is a net importer, and its earnings are vulnerable to unfavourable forex fluctuations, although its effective hedging mechanism mitigates forex risk to an extent.

Significant capex plans – The company has consolidated capex plans of ~Rs. 420 crore during FY2024–26 for capacity enhancement, localisation and maintenance. While the significant capex could impact ZFRAIPL's free cash flows in the near

term, ICRA draws comfort from ZFRAIPL's healthy anticipated cash accruals, its comfortable debt metrics and strong financial flexibility/ lender comfort.

High customer concentration – ZFRAIPL has relatively high client concentration with its top five customers generating ~70% of its revenues in FY2023. This exposes the company's revenues to volatility arising from any slowdown in orders from its prime customers. However, ZFRAIPL's established presence, long validation/testing cycles in safety-critical products and its demonstrated ability to add new customers mitigate the risk to a large extent.

Liquidity position: Adequate

ZFRAIPL's liquidity remains adequate supported by its healthy anticipated cash accruals, unencumbered cash and liquid investments and working capital buffer. The company's average working capital utilisation for the 12-month period ended July 2023 remained comfortable at ~70-75% of the sanctioned limits and drawing power, and it had undrawn working capital lines of Rs. 96.1 crore as on June 30, 2023. As on the same date, ZFRAIPL had unencumbered cash and liquid investments of Rs. 52.7 crore. Against these sources of cash, the company has long-term debt repayment obligations of Rs. 20.5 crore in FY2024, Rs. 33.1 crore in FY2025 and Rs. 41.5 crore in FY2026 on its existing and sanctioned loans. Further, the company has consolidated capex plans of ~Rs. 420 crore over FY2024–FY2026 for capacity enhancement, localisation and maintenance. The capex is expected to be funded through a combination of internal accruals and debt beyond internal accruals. Overall, the liquidity position is expected to remain adequate over the medium term.

Rating sensitivities

Positive factors – Improvement in profitability and reduction in debt levels leading to an improvement in coverage metrics could lead to a rating upgrade. Specific metrics that could trigger an upgrade would include RoCE above 20% and net debt /OPBDITA of less than 1.0x on a sustained basis.

Negative factors – Negative pressure on ratings could arise with significant weakening in ZFRAIPL's revenues or margins or sizeable increase in debt levels as a result of working capital stretch or significant capex. Specific metrics that could trigger a downgrade could include net debt/OPBDITA of greater than 2.2x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

ZF Rane Automotive India Private Limited is a 49:51 joint venture between Rane Holdings Limited (holding company of the Rane Group, an established auto ancillary group in India; rated [ICRA]AA- (Stable)/[ICRA]A1+) and ZF Automotive J.V. US LLC (part of ZF Friedrichshafen AG, a reputed global auto component supplier). The company is a tier-I auto component supplier and has two divisions—hydraulic steering gears and occupant safety products. ZFRAIPL manufactures hydraulic power steering and pumps in the former (~48% of revenues in FY2023) and seat belts and airbags in the latter (~52%). ZFRAIPL derives ~68%

of its revenues from the domestic market (38% from PVs, 54% from CVs and the balance from spares and farm tractors) and ~32% from overseas markets (predominantly PVs). While the company only had standalone operations earlier, it incorporated a wholly-owned subsidiary, ZF Rane Occupant Safety Systems Private Limited, in June 2022, for manufacturing some of its occupant safety products.

The Rane Group is represented by key companies such as Rane Holdings Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+), Rane Engine Valve Limited, Rane Brake Lining Limited (rated [ICRA]AA- (Stable)/ [ICRA]A1+), Rane (Madras) Limited and Rane NSK Steering Systems Private Limited, apart from ZFRAIPL.

Key financial indicators (audited)

ZFRAIPL Consolidated	FY2022	FY2023
Operating income	1,338.7	1,847.6
PAT	49.4	97.2
OPBDIT/OI	8.9%	10.3%
PAT/OI	3.7%	5.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.5
Total debt/OPBDIT (times)	1.6	1.8
Interest coverage (times)	15.8	16.2

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Sep 28, 2023	Mar 06, 2023	Jan 06, 2022	Dec 27, 2021	Oct 30, 2020
1 Long-term fund based-CC	Long Term	205.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2 Long-term fund based-TL	Long Term	83.38	75.92	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3 Short-term fund based –sublimit	Short Term	(150.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Short-term non-fund based-sublimit	Short Term	(80.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5 Short-term fund based	Short Term	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6 Short-term non-fund based	Short Term	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7 Long-term/Short-term: Unallocated	Long Term/Short Term	47.12	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – CC	Simple
Long-term fund based – Term loan	Simple
Short-term fund based – sublimit	Simple
Short-term non-fund based	Very Simple
Long-term/Short-term: Unallocated	Not Applicable

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	Term Loan-I	FY2018	6.69%	FY2023	1.71	[ICRA]AA- (Stable)
NA	Term Loan-II	FY2018	7.90%	FY2023	11.07	[ICRA]AA- (Stable)
NA	Term Loan-III	FY2021	7.90%	FY2026	13.84	[ICRA]AA- (Stable)
NA	Term Loan-IV	FY2022	8.19%	FY2027	8.19	[ICRA]AA- (Stable)
NA	Term Loan-IV	FY2022	7.48%	FY2027	48.57	[ICRA]AA- (Stable)
NA	Cash credit	NA	6.00%	NA	205.00	[ICRA]AA- (Stable)
NA	Short term loan/Export credit	NA	NA		(150.00)	[ICRA]A1+
NA	LC/BG				(80.00)	[ICRA]A1+
NA	LT/ST: Unallocated				47.12	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
ZF Rane Automotive India Private Limited	NA	Full Consolidation
ZF Rane Occupant Safety Systems Private Limited	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Bikram Keshari Swar
+91 44 4596 4311
bikram.swar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.