April 25, 2024

Jai Suspension Systems Private Limited: Ratings reaffirmed

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 working capital	48.50	48.50	[ICRA]AA-(Stable) /[ICRA]A1+ reaffirmed
Total	**48.50**	**48.50**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Jamna Auto Industries Limited (JAI) and its two subsidiaries (Jai Suspension Systems Private Limited and Jai Suspensions Limited) (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 rating reaffirmation continues to favourably factor in the Group's leadership position in the domestic leaf spring market, aided by scale, competitive pricing and strategic location of its manufacturing facilities in India. This has helped the Group maintain a dominant share of business (SOB) with most commercial vehicle (CV) Original Equipment Manufacturers (OEMs) with its domestic market share ranging within 62-65%. The volumes of medium and heavy commercial vehicles (M&HCVs/ trucks), the key end-user segment for the JAI Group, grew by nearly 40% in FY2023 and 4% in FY2024, which supported the company's revenue growth of 35% and 6% (on a high base) YoY in FY2023 and 9M FY2024, respectively. Going forward, ICRA notes that the CV industry's demand outlook is likely to remain subdued in the near term due to last year's high base and the impact of the General Elections. This might impact the company's operating performance to some extent in FY2025; however, despite the same, the company's scale of operations is expected to remain at healthy levels. The margins had moderated in FY2023 to 11.4% (13.3% in FY2022) owing to an increase in raw material prices along with power and fuel costs, however the same subsequently improved to 13.4% in 9M FY2024 with an easing in steel prices. Even as the margins continue to remain linked to volatility in raw material prices, they are expected to remain supported by better operating leverage and gradual shift towards value accretive products.

The company incurred a capex of ~Rs. 160 crore in FY2024 towards the construction of its new plant at Adityapur, Jharkhand (~Rs. 54 crore) and remaining at its existing plants (mainly in Chennai). It is likely to incur capex of ~Rs. 150-180 crore in FY2025, of which ~Rs. 140 crore will be spent for completing the Adityapur plant. The capex will be funded largely through internal accruals and JAI plans to continue to remain low leveraged. The company had nil working capital and term debt as of December 31, 2023, and is expected to continue to report robust credit metrics in FY2024 (Total Debt/OPBITDA of 0.4x and interest coverage of 77x in FY2023).

The aforementioned 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. In this regard, the company's efforts towards shifting its product mix towards value-added products, such as parabolic springs and lift axles, among others, and strengthening its distribution network for aftermarket sales provide comfort. The aftermarket revenues provide diversification from OEM sales and offer higher margins. These initiatives are likely to help the company lower its exposure to the cyclicality associated with CV OEMs to an extent, going forward.

ICRA notes the Group's high client concentration with its top two customers—Tata Motors Limited (TML) and Ashok Leyland Limited (ALL)—accounting for a predominant share of sales. 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 reflects ICRA's opinion that the company's financial risk profile is likely to remain strong despite its capex plans, aided by steady share of business and expectation of healthy cash accruals.

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 healthy business coming from the leading OEMs, TML, ALL, Daimler India, Volvo Commercial Vehicles, etc. The Group continues to maintain healthy relationships with its customers, as evident from a strong SOB maintained over the years (JAI's market share has remained at 62-65% 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 growth prospects – In recent years, JAI has witnessed a growth in revenue contribution from its higher value-accretive products in terms of margins, such as parabolic springs. The revenue share from JAI's parabolic springs improved gradually to nearly ~37% in 9M FY2024 from 9% in FY2011. While sales from other products—lift axles, trailer suspensions and allied products (9% of revenues in 9M FY2024)—form a small share at present, the same is likely to improve, going forward. Additionally, the company is growing its presence in the aftermarket segment (~19% of revenues in FY2023) and export markets by expanding its distribution network to support revenue diversity. Accordingly, higher revenues from the aftermarket segment and a diversified product mix through the launch of new products are likely to further support JAI's market position over the medium term.

Strategic proximity to OEMs provides competitive advantage – JAI's nine manufacturing plants as well as its two upcoming plants (in construction phase) in India are all located near its customer 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 77.0 times in FY2023 (~94 times in 9M FY2024) and TOL/TNW of 0.3 times as on March 31, 2023. The company does not have any long-term debt on its books (as of December 2023) and primarily utilises supplier and customer bill discounting limits. Though the company has capacity expansion plans for setting up new plants, it plans to fund the same through internal accruals with low dependence on external debt, and a capital structure that is expected to remain comfortable over the medium term.

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 and export markets (~19% sales from aftermarket and ~1% from exports in FY2023), its ability to scale up its aftermarket 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 key customers with major proportion of revenues emanating from them, besides VE Commercial Vehicles Ltd. and Daimler India Commercial Vehicles Pvt. Ltd. being JAI's other leading 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 (~90%), leading to a high product concentration risk. However, the same is likely to gradually moderate, 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 available working capital buffer of ~Rs. 160 crore (as of February 2024) and unencumbered cash and liquid investments of ~Rs. 70 crore (as on March 31, 2024). It is expected to incur capex of Rs. 150-180 crore in FY2025, primarily towards completion of its new plant at Adityapur, capacity expansion at its existing facilities as well as new product development; and continue to have a healthy dividend outflow (45–50% of PAT). These are expected to be largely funded through internal accruals. Moreover, the company does not have any long-term debt repayment obligations 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 material 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 Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of JAI. As on March 31, 2023, the company had three subsidiaries, which are enlisted in Annexure-2.

About the company

Incorporated in 1965, the Delhi NCR-based Jamna Auto Industries Limited 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 CV spring manufacturer. JAI's manufacturing facilities are spread across 11 locations, including Yamuna Nagar (Haryana), Chennai (Tamil Nadu), Malanpur (Madhya Pradesh), Jamshedpur (Jharkhand), Hosur (Tamil Nadu), Pune (Maharashtra), Sriperumbudur (Tamil Nadu), and others. In FY2023, it generated ~80% of its sales from the OEM segment, followed by the replacement (19%) and export (1%) markets, 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.

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

Key financial indicators (audited)

JAI Consolidated	FY2022	FY2023	9M FY2024*
Operating income	1,720.0	2,327.7	1,786.6
PAT	140.8	168.4	150.6
OPBDIT/OI	13.3%	11.4%	13.4%
PAT/OI	8.2%	7.2%	8.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.3	-
Total debt/OPBDIT (times)	1.3	0.4	-
Total debt/OPBDIT (times) (without acceptances)	0.8	0.1	-
Interest coverage (times)	55.0	77.0	-

*Source: Company, ICRA Research; *Limited results; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Balance sheet figures not available for 9M FY2024; customer and supplier bill discounting included in debt; company had supplier bill discounting/acceptances o/s (in form of short-term borrowings) of Rs 73.7 crore as of March 31, 2023 which is not included in debt as per annual report, however company is liable to pay to banks/financial institution within period of 90 days

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 25, 2024	Apr 27, 2023	Apr 29, 2022	Apr 29, 2021
1	**Fund-Based/ Non-Fund Based working capital**	Long Term/ Short Term	48.50	-	**[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/ 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 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 working capital**	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 II: List of entities considered for consolidated analysis

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

Source: JAI annual report FY2023

Note: ICRA has factored in consolidated financials of JAI while assigning the ratings.

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