

May 07, 2024

JTEKT India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based-Cash Credit	48.35	58.35	[ICRA]AA (Stable); Reaffirmed/assigned for enhanced amount
Term Loan	82.88	152.75	[ICRA]AA (Stable); Reaffirmed/assigned for enhanced amount
Fund/Non Fund-based Limits	85.00	89.00	[ICRA]AA (Stable)/ [ICRA] A1+; Reaffirmed/assigned for enhanced amount
Unallocated Limits	56.03	0.00	-
Fund Based Limits	12.50	12.50	[ICRA]A1+; Reaffirmed
Non Fund-Based Facilities	30.00	20.00	[ICRA]A1+; Reaffirmed
Total	314.76	332.60	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings factors in the steady operational performance of JTEKT India Limited (JIL), with the company being a leading supplier of steering systems to passenger vehicle (PV) original equipment manufacturers (OEMs) in India. The reaffirmed ratings continue to factor in the company's healthy financial risk profile characterised by low leverage and healthy cash accruals, as well as operational and technical support enjoyed by it from its parent company, JTEKT Corporation (JTEKT), Japan. Going forward, the steady operational performance is expected to aid the company in generating healthy cash accruals and help it maintain a strong credit profile.

JIL enjoys a leading position in the steering system segment in India with a strong presence in manual steering gears (MSG), electronic power steering (EPS) and hydraulic power steering systems (HPS). Besides the steering systems division, the company has a driveline division for manufacturing axle assemblies, case differentials and propellant shafts, resulting in a diversified product profile for the entity. Moreover, the company has recently developed a new product, constant velocity joints (CVJ), to expand its driveline division, which would support its revenue growth in the medium term and further diversify its product portfolio.

JIL continues to maintain a healthy share of the business (SoB) with some of the leading PV OEMs in India, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra Limited (M&M), Honda Cars India Limited (HCIL) and Toyota Kirloskar Motor Private Limited (TKML), providing healthy revenue visibility.

The ratings continue to factor in the marketing and technical support received by JIL from JTEKT, a leading global manufacturer of steering systems and driveline products. In addition, its strong parentage lends the company healthy financial flexibility, in terms of access to unsecured debt from Japanese banks (backed by corporate guarantee from the parent entity).

JIL reported moderate revenue growth of ~7% YoY to Rs. 1,613.4 crore in 9M FY2024 (due to the high base of 9M FY2023) and reported an OPM of 9.0%, aided by steady underlying demand in the PV industry. Its credit metrics remained healthy with a total debt/ OPBITDA of 0.6 times and interest cover of ~36.5 times in 9M FY2024. JIL maintains a healthy financial risk profile, aided by healthy cash accruals, low debt repayments and moderate capex plans. Going forward, its credit metrics are expected

to remain comfortable aided by the company's healthy cash accruals, despite having capex plans of Rs. 120-150 crore in FY2024. The management is evaluating plans to set up a new greenfield plant to enhance capacity, factoring in the healthy demand outlook for the PV industry over the medium term; the funding mix for setting up the new plant, once finalised, will remain monitorable.

ICRA notes that the company has amalgamated its subsidiary company, JTEKT Fuji Kiko Automotive Limited with and into JIL (effective from January 01, 2024), which is likely to help the company achieve operational efficiencies.

The ratings remain constrained by the competitive intensity in the steering system space and JIL's segment concentration risks. JIL's business profile is characterised by a high concentration in the domestic PV industry and dependence on select OEMs. Going forward, JIL's revenue growth is expected to remain broadly in line with the growth in the PV industry while being supported by incremental revenues from the CVJ business.

The Stable outlook on the long-term rating reflects ICRA's expectation that JIL will continue maintaining a robust credit profile, aided by strong technological support from its parent entity, as well as JIL's dominant position in the supply of steering systems to the domestic PV industry.

Key rating drivers and their description

Credit strengths

Leading manufacturer of steering systems in India with strong SoB with PV OEMs - The company is a leading manufacturer of steering systems in the domestic market, with a high SoB with several PV OEMs such as MSIL, M&M, HCIL and TKML. The company enjoys a SoB of ~50-55% with the market leader, MSIL, and nearly 100% for its product supplies to TKML (benefitting from being a part of the Toyota Group). The strong SoB with various OEMs provides healthy revenue visibility for the company.

Strong parentage provides technical support and aids JIL in securing business from Japanese OEMs in India - JIL receives business and technical support from JTEKT, a leading global manufacturer of steering systems and driveline products. In addition, its strong parentage lends the company healthy financial flexibility, in the form of access to unsecured debt from Japanese banks (backed by corporate guarantee from the parent entity for some sanctions).

Well-diversified product offerings of steering system and driveline products - The company has diverse product offerings, including CEPS, HPS, MSG and driveline products such as axle assemblies, case differentials, propellant shafts. JIL has also developed CVJs, which has helped it to enhance its product profile and diversify its business profile for the driveline division.

Healthy financial risk profile, characterised by low leverage and healthy cash accruals - JIL has a healthy financial risk profile, characterised by a conservative capital structure and strong debt coverage indicators. Its financial risk profile is also supported by its adequate liquidity position, characterised by the availability of unutilised working capital limits and surplus cash and liquid balances (~Rs. 75 crore as of March 2024). Going forward, although the company has moderate capex plans of ~Rs. 120-150 crore in FY2025, its reliance on debt is expected to remain low aided by its healthy cash accruals. Accordingly, the company's credit metrics and coverage indicators are expected to remain healthy over the medium term.

Credit challenges

High segment concentration risk with PV sector driving ~95% of sales, exposes JIL to demand vagaries of domestic PV market - JIL generates ~95% of its revenues from PV OEMs, resulting in significant segment concentration risk and making it susceptible to the cyclicality in the PV industry. Nevertheless, the company's favourable ownership pattern, coupled with the healthy SoB enjoyed with various OEMs, mitigates the segment concentration risk to an extent.

Increasing competition in the steering systems market, especially in supplies to key customer, MSIL - JIL encounters stiff competition from other steering system manufacturers, which has led to the loss of business for a few key models in the past. Nevertheless, the company maintains a strong SoB with various OEMs and has been able to gain business for recent product

launches of various OEMs. Going forward, the company’s access to technological know-how from its parent entity is expected to help it maintain its strong market position.

Environmental and Social Risks

Environmental considerations: Even as JIL is not directly exposed to the climate-transition risks from a likelihood of tightening emission control requirements, with its products being used across different fuel powertrains, its automotive manufacturing customers remain highly exposed to the same. Accordingly, JIL’s prospects are linked to its customer’s ability to meet tightening emission requirements. The company’s exposure to litigation/penalties from issues related to waste and water management remains relatively lower.

Social considerations: JIL, like most automotive-component suppliers, has a healthy dependence on human capital and retaining human capital, maintaining healthy employee relations and its supplier ecosystem remain essential for disruption-free operations of the entity. Moreover, JIL encounters product safety and quality-related social risks, wherein instances of product recall and high warranty costs may lead to financial implications and harm its reputation, creating a more long-lasting adverse impact. In this regard, JIL’s strong track record in catering to leading automotive manufacturers underscores its ability to mitigate these risks to an extent. The company’s strong technological capabilities, aided by support from JTEKT Corporation (Japan), are likely to help it align its products with any changes in customer preferences.

Liquidity position: Adequate

JIL’s liquidity position is adequate, supported by healthy cash flow generation, availability of unutilised working capital limits (average unutilised limit of ~Rs. 125 crore against the sanctioned limits during the 12-month period that ended in February 2024), access to undrawn term loans of ~Rs. 60 crore as of March 2024 and surplus cash and liquid balances (~Rs. 75 crore as of March 2024). In addition, the parentage of JTEKT provides the entity with strong financial flexibility and gives it access to unsecured sanctions from Japanese banks at competitive interest rates. Against the aforementioned liquidity position, the company has minimal debt repayments of ~Rs. 26 crore and capex plans of ~Rs. 120-150 crore in FY2025. Going forward, it is expected to largely meet its capex requirements and debt obligations from internal accruals and available lines of credit while maintaining healthy cash surpluses.

Rating sensitivities

Positive factors – A sustained diversification of the company’s segmental, product or customer mix would be favourably considered for an upgrade. Significant improvement in the company’s return indicators and debt coverage indicators on a sustained basis would also augur well for an upgrade.

Negative factors – The ratings may be revised downwards, in case of any significant deterioration in the company’s profitability and credit metrics on account of weakness in demand across the domestic automotive industry, or due to any large debt-funded capex, which adversely impacts its credit profile. Any weakening of the technical and operational linkages with the parent company could also trigger a negative rating action. Net debt/OPBDITA above 1.0 times on a sustained basis is also a specific factor for a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not applicable

Consolidation/Standalone

The ratings are based on the standalone financials of the company.

About the company

JTEKT India Limited (JIL; erstwhile Sona Koyo Steering Systems Limited) is a leading manufacturer of steering systems and driveline products for passenger vehicle OEMs in India. The company commands a market leadership position in the steering system segment in India with a strong SoB with OEMs, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra (M&M), Honda Cars India Limited (HCIL), Toyota Kirloskar Motor Private Limited (TKML) and Tata Motors Limited (TML). JIL is a domestic-focused auto component manufacturer and generates ~95-96% of its revenues from PV OEMs.

The company manufactures the entire range of steering systems and driveline products. The key manufactured components include manual and power steering systems, which comprise steering gears and columns. The driveline product portfolio includes case differentials, axle components, rear axle assemblies, propeller shafts and constant velocity joints (CVJ, new product). JIL supplies these products to various passenger vehicle OEMs. The company's manufacturing facilities are located in Gurgaon (Haryana), Dharuhera (Haryana) and Chennai.

The entity was incorporated in 1984 by the Sona Group, as a technical and financial collaboration with JTEKT Corporation, Japan. In Q4 FY2017, JIL's technology partner, JTEKT, bought out a 25.12% stake from its exiting Indian partner, Sona Autocomp Holding Limited, and increased its shareholding in the company to 45.4% from 20.1%. It acquired a further 25% stake in JIL via a public open offer in Q1 FY2018. At present, JTEKT's stake in the company stands at 69.55% with two entities (JTEKT Corporation and JTEKT Column Systems Corporation) combined.

The company amalgamated its subsidiary, JTEKT Sona Automotive India (JSAI), with effect from Q4 FY2019. This amalgamation helped in streamlining the manufacturing operations, reducing overall production turnaround time. Moreover, it provides a unified interface to customers, including access to an entire steering assembly offering from a single source, besides improving efficiencies and reducing costs.

The company has amalgamated its subsidiary company, JTEKT Fuji Kiko Automotive Limited with and into JIL (effective from January 01, 2024), which has helped the company to rationalise the overhead expenses and optimally utilise its available resources.

Key financial indicators (audited)

JIL Standalone	FY2022	FY2023	9M FY2024*
Operating income	1,588.8	2,043.9	1,613.4
PAT	41.1	87.1	72.6
OPBDIT/OI	8.0%	9.1%	9.0%
PAT/OI	2.6%	4.3%	4.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	-
Total debt/OPBDIT (times)	0.6	0.3	-
Interest coverage (times)	34.1	39.4	36.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company, ICRA Research; *Limited results; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 07, 2024	Apr 19, 2023	Apr 22, 2022	Apr 15, 2021
1 Cash Credit	Long term	58.35	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2 Term Loans	Long term	152.75	87.15	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3 Non Fund-Based Facilities	Short term	20.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Fund Based Limits	Short term	12.50	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5 Fund/Non Fund-based Limits	Long term and short term	89.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
6 Unallocated Limits	Long term	0.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
7 Commercial Paper Programme	Short term	-	-	-	-	[ICRA]A1+ (withdrawn)	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based-Cash Credit	Simple
Term Loan	Simple
Fund/Non Fund-based Limits	Simple
Fund Based Limits	Simple
Non Fund-Based Facilities	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	Term Loan-I	FY2021	NA	December 2025	22.20	[ICRA]AA (Stable)
NA	Term Loan-II	FY2021	NA	September 2026	45.55	[ICRA]AA (Stable)
NA	Term Loan-III	FY2024	NA	FY2029	45.00	[ICRA]AA (Stable)
NA	Term Loan-IV	FY2024	NA	FY2029	40.00	[ICRA]AA (Stable)
NA	Fund Based-Cash Credit	NA	NA	NA	58.35	[ICRA]AA (Stable)
NA	Fund/Non Fund-based Limits	NA	NA	NA	89.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Fund Based Limits	NA	NA	NA	12.50	[ICRA]A1+
NA	Non Fund-Based Facilities	NA	NA	NA	20.00	[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 – Not Applicable

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