

November 04, 2024

## ZF Hero Chassis Systems Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	30.00	30.00	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund based – Working capital	4.00	4.00	[ICRA]A2+; reaffirmed
<b>Total</b>	<b>34.00</b>	<b>34.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of ratings for ZF Hero Chassis Systems Private Limited (ZF Hero) factors in the company's strong revenue growth and steady internal accrual generation in FY2024, supported by healthy demand levels in the luxury passenger vehicle (PV) industry and ICRA's expectation of sustenance of the same in FY2025. This coupled with limited reliance on debt has continued to result in a comfortable capital structure and healthy debt protection metrics for the company. Additionally, the ratings continue to factor in technical support and financial flexibility enjoyed by ZF Hero from its strong parentage as a 50:50 joint venture (JV) between ZF Chassis Modules Holding, GmbH and Hero Cycles Limited (HCL). The strong relationships enjoyed by the ZF Group with the European PV original equipment manufacturers (OEMs) globally, including BMW, and its strong technical capabilities in car-chassis technology have supported ZF Hero in securing business from BMW in India. ZF Hero's established business position as a single-source supplier of key chassis components for all existing and successor models of BMW in India has benefitted the company over the years. Going forward, further scale-up of its products in the domestic luxury car market is expected to support its growth prospects over the near-to-medium term.

The ratings, however, remain constrained by the company's high customer concentration risk as BMW is its sole customer. Nonetheless, ZF Hero's single-source supplier status for chassis assemblies for the OEM and its established global relationships with the ZF Group mitigate this risk to a large extent. The company continues to evaluate opportunities to diversify its customer base in the future. The ratings also factor in the company's moderate scale of operations because of its niche product segment of luxury cars and single client. Moreover, it faces significant import dependence as most of the components are sourced from the ZF Group's global supply chain. This exposes the company to fluctuations in foreign exchange (forex) rates, however, such risk has been prudently managed by the company's hedging practices in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that ZF Hero will continue to benefit from the established relationship of the ZF Group with BMW globally, enabling ZF Hero to generate steady accrual and maintain healthy coverage metrics.

### Key rating drivers and their description

#### Credit strengths

**Company benefits from its strong parentage in terms of access to technical support and financial flexibility** – ZF Hero benefits from the financial flexibility arising from its strong parentage, as it is a 50:50 JV between the ZF Group and HCL. Additionally, the company's ability to gain business and technical support arising from the strong relationships between ZF Germany and European car OEMs provide additional comfort.

**Established relationship with BMW and a strong share of business ensure revenue visibility over the medium term** – ZF Hero gets a healthy share of business from BMW for all its major models in the domestic market. The company continues to gain business for supplying chassis assemblies for several new successor models of BMW in India. The strong market position of BMW in the Indian luxury car segment, characterised by its position as the second-largest luxury car manufacturer in the industry, and ZF Hero's established relationship with the OEM, ensures revenue visibility over the medium term and reduce business risks for the company.

**Comfortable capital structure and healthy coverage indicators** – The company's capital structure remains comfortable, supported by low dependence on debt and steady accreditation to reserves, despite a sizeable dividend payout in the recent years. Moreover, debt protection indicators have remained healthy with total outside liabilities/total net worth (TOL/TNW) of 0.5 times for FY2024. Given the steady accrual generation and no major capex plans, reliance on debt is likely to remain low going forward, supporting ZF Hero's credit profile.

### Credit challenges

**Exposed to high customer concentration risk with BMW as the sole customer; established relationship with OEM mitigates the risk to some extent** – ZF Hero provides chassis assembly services for BMW, which is its sole customer. This exposes the company to high concentration risk and its performance is linked to the demand for BMW models in India. However, ZF Hero's single source status for the OEM's chassis assemblies and established global relationships with the ZF Group (Germany) mitigate the risk to a large extent. Moreover, the company's ongoing efforts to diversify with new OEMs provide some comfort.

**Moderate scale of operations and limited scope for value addition** – ZF Hero has a moderate scale of operations owing to its presence in the niche product segment with a sole customer. Its scope of operations is limited to the assembly of front and rear axles. The entire components are imported and limited manufacturing is done in-house, leading to relatively lower value addition in the business profile. This also limits opportunities to backward integrate its operations. Nonetheless, the business derives strength from India's import duty structure, which encourages OEMs to localise manufacturing and even assemble key vehicle aggregates locally. The company's business profile is sensitive to any change in the import duty structure, or BMW's decision to move assembly operations in-house, and the same continues to remain a key monitorable.

**Significant import dependence exposes the company to forex fluctuations** – The company imports its entire raw materials from global vendors, which form a part of the ZF Group's and BMW's global supply chains, exposing it to any adverse fluctuation in the foreign exchange rates, at times. However, ZF Hero hedges its forex exposure, which mitigates the risk to an extent.

**Exposed to cyclicity inherent in the automotive sector** – ZF Hero derives its entire revenue from the automotive sector, mainly the PV segment, exposing it to intense competition and inherent cyclicity in the auto industry.

### Liquidity position: Strong

ZF Hero's liquidity position remains strong, supported by free cash and bank balances of Rs. 76.6 crore, as of June 30, 2024, with a healthy cushion of ~Rs. 53 crore available in the working capital limits as of July 2024. In line with the past trend, the company is likely to continue to pay sizeable dividends to its shareholders. However, minimal capex plans and no debt repayments, coupled with healthy accrual generation are expected to continuously support ZF Hero's liquidity profile.

### Rating sensitivities

**Positive factors** – The company's ability to scale up its business and strengthen its business profile by securing new customers will be considered favourably for ratings upgrade. Continued strengthening of the financial risk profile, aided by healthy operating performance, may also lead to improved ratings.

**Negative factors** – Pressure on the ratings could arise in case of loss of business from BMW or weakening of the financial risk profile due to any large debt-funded capex or pressure on the profit margins with core RoCE below 16% on a sustained basis. Moreover, pressure on the ratings could arise in case of considerably higher-than-anticipated dividend payout, leading to weakening of the liquidity position.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Auto Components</a>
Parent/Group support	ZF Hero's ratings were earlier upgraded because of the financial support of Hero Cycles Ltd. However, in the absence of relevant information pertaining to the credit profile of Hero Cycles Ltd., ICRA has changed its rating approach from parent support to ZF Hero's standalone credit profile. ZF Hero's credit profile has been supported by its continued strong financial performance, with higher cash accrual generation, net cash position and strong liquidity profile.
Consolidation/Standalone	Standalone

## About the company

ZF Hero is primarily involved in assembly operations of key chassis components such as front suspension, rear axle and corner module for passenger car OEMs. It has an assembly facility in Chennai (Tamil Nadu) for supplying to BMW, which has a production capacity of 12,500 units annually on a single-shift basis.

The company was incorporated in March 2010 as a 50:50 joint venture between Hero Motors Limited (HML) and ZF India Private Limited (100% subsidiary of ZF Friedrichshafen AG, Germany). In FY2017, with the demerger of HML into Hero Cycles Limited, the latter become a 50% JV partner, providing added strength to the promoter profile. As of July 24, 2023, Foxconn (leading German electronics manufacturer) has acquired a 50% stake in ZF Chassis Modules GmbH, post which the ultimate shareholder of the company, ZF Friedrichshafen AG, Germany is now in a 50-50 strategic partnership with Foxconn in passenger car chassis systems.

## Key financial indicators (audited)

ZF Hero – Standalone	FY2023	FY2024
Operating income	282.9	434.4
PAT	35.4	56.3
OPBDIT/OI	17.8%	17.0%
PAT/OI	12.5%	13.0%
Total outside liabilities/Tangible net worth (times)	0.9	0.5
Total debt/OPBDIT (times)	0.2	0.1
Interest coverage (times)	46.7	52.7

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

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current year (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Nov 04, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash Credit	Long term	30.00	[ICRA]A-(Stable)	06-Oct-23	[ICRA]A-(Stable)	01-Aug-22	[ICRA]A-(Stable)	23-June-21	[ICRA]A-(Stable)
Non-fund based – Working capital	Short term	4.00	[ICRA]A2+	06-Oct-23	[ICRA]A2+	01-Aug-22	[ICRA]A2+	23-June-21	[ICRA]A2+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash Credit	Simple
Non-fund based –Working capital	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 Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Cash Credit	NA	NA	NA	30.00	[ICRA]A-(Stable)
NA	Non-fund based –Working capital	NA	NA	NA	4.00	[ICRA]A2+

Source: Company

#### Annexure II: List of entities considered for consolidated analysis: Not Applicable

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