December 16, 2024

Somic ZF Components Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term –Fund-based/non-fund based –Working capital facilities	31.75	31.75	[ICRA]A1; reaffirmed
Long-term/Short-term –Fund-based/non-fund based -Working capital facilities	5.00	5.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Total	**36.75**	**36.75**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in the expectation that the healthy operating performance of Somic ZF Components Private Limited (Somic ZF) would continue, aided by its stable operational profile and its strong parentage. Continued access to technical assistance from its promoters—Somic Ishikawa Inc., Japan (Somic) and ZF Friedrichshafen AG, Germany (ZF)—and strong relationships of the promoters with global auto original equipment manufacturers (OEMs) continue to support Somic ZF's business prospects. Established in 1993, Somic ZF has a proven operational track record in the auto ancillary industry with long relationships with its customers (Maruti Suzuki India Limited [MSIL], and JTEKT India Limited [JTEKT], among others). Further, the ratings continue to favourably factor in the company's strong financial profile, characterised by no debt on its books (apart from lease liabilities) and strong cash and liquid investments (~Rs. 93 crore as of March 31, 2024).

The underlying demand for the passenger vehicle industry has remained strong over the past few years, aiding volumes. Even as the growth for the PV industry moderated in FY2024 (on a high base), Somic ZF recorded a moderate ~10% growth in revenues on a YoY basis, which stood at Rs. 685 crore in the said year.

Somic ZF's operating margin improved to 9.5% in FY2024 from 8.6% in FY2023, aided by cost control measures and an increase in the operating leverage with volume growth. Going forward, the OPM is expected to be largely stable. Further, return indicators of the company also continue to remain healthy, with the company reporting an RoCE of 25.9% in FY2024; with moderate capex plans going forward, the return indicators are expected to remain at healthy levels.

The ratings remain constrained because of Somic ZF's high segment and client concentration risks with the company deriving most of its revenues from the PV segment and ~70% of its revenues in FY2024 emanating from two customers, MSIL and JTEKT. Nevertheless, the risk is partially mitigated by Somic ZF's long relationships with OEMs along with a healthy share of business. The ratings also factor in the vulnerability of earnings to competition from larger players and the inherent cyclicity of demand in the Indian automotive industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that Somic ZF will continue to benefit from its strong parentage in terms of technical and financial support and would continue to earn steady business from its customers, given the established relationships. Aided by steady supplies, the company is expected to maintain a comfortable financial risk profile.

Key rating drivers and their description

Credit strengths

Strong technical and operational support from parent entities – Somic ZF enjoys access to design and technology transfer support from its parent entities, Somic and ZF (both have a strong presence in the global automotive industry), which helped it secure new businesses from the subsidiaries of global OEMs operating in India. In addition, the parent entities have aided in the company's financial flexibility, reflected in the guarantees provided by them to obtain credit limits.

Healthy financial risk profile and strong liquidity – Somic ZF's financial risk profile remains strong, characterised by a strong capital structure (no external debt on its books as of March 31, 2024, apart from lease liabilities) and healthy coverage indicators. Healthy cash reserves of ~Rs. 93 crore as on March 31, 2024 provide additional comfort. The liquidity profile is also supported by financial flexibility in the form of unutilised working capital limits from banks.

Credit challenges

Exposed to high segment and client concentration risks – The PV segment generated most of the company's revenues in FY2024 (more than 95%), leading to high segment concentration risk. In line with the joint venture (JV) agreement between Somic and ZF, the company's business prospects are largely restricted to the PV segment, with supplies to the commercial vehicle (CV) segment limited to small CVs (less than 2 tonnes). Somic ZF's PV segment largely depends on two customers, MSIL and JTEKT (together drove ~70% of revenues in FY2024). The client and segment concentration risks are, however, partially mitigated by the company's strong share of business in various product categories and its strong relationships with its customers. Additionally, the company has a demonstrated track record of securing incremental business from its clients over the years. While Somic ZF's focus on diversifying its customer profile is likely to help moderate the client concentration level to an extent over the medium-to-long term, the revenue contribution of MSIL and JTEKT is expected to remain at significant levels.

Revenue growth prospects in international markets remain limited; exposed to cyclicality in domestic market – Over the years, Somic ZF's export revenues have remained muted, with the domestic market generating most of its revenues. The company is a JV between global automotive component suppliers with a presence in various geographies through different JVs, which limits the interest of the parents in providing it with export business. As its revenues are derived entirely from the automotive segment, Somic ZF's revenues and earnings are vulnerable cycles in the Indian auto industry, as seen in the past. While the management is focussed on expanding Somic ZF's revenues from the export markets, a material diversification is only likely to happen over the medium-to-long term.

Liquidity position: Strong

Somic ZF's liquidity profile remains strong, characterised by expectations of healthy fund flow from operations, significant cash and liquid investments (~Rs. 93 crore as on March 31, 2024) and unutilised working capital facilities of Rs. 36.8 crore. The company has no repayment obligations and has moderate capex plans of Rs. 20-25 crore in FY2025, which are expected to be funded through internal accruals.

Rating sensitivities

Positive factors – A material diversification of its clientele would be seen as a credit positive for the company. Also, a rating upgrade might be triggered if it can record a significant improvement in revenue and profitability on a sustained basis, leading to an improvement in its return indicators, while maintaining a healthy liquidity profile.

Negative factors – A negative rating action could be triggered if there is any significant impact on cash accruals or a deterioration in its working capital cycle, weakening the company's financial and/or the liquidity profile. Specific credit metrics that could trigger ratings downgrade would be Debt/OPBDITA of more than 1.8 times on a sustained basis.

Analytical approach

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

About the company

Somic ZF was incorporated in 1993 as Sona Somic Components Limited (SSCL) as a joint venture between Sona Koyo Steering Systems Limited (SKSSL) and Somic Ishikawa Inc. (Somic), Japan. In 1998, ZF Lemforder Metallwaren AG (ZLM), Germany joined as the third joint venture partner and the company's name was changed to Sona Somic Lemforder Components Limited (SSL). In November 2010, Somic Engineering (Japan) also infused equity into the Group, leading to an increase in the stake of the Somic Group to 50% in the company. These tie-ups have expanded the footprint of the company as it can cater to both the Japanese as well as the non-Japanese customers in India.

In April 2012, the Sona Group exited from the company through selling the stake held by its group company, Sona Investments Private Limited, to ZF India Private Limited (ZF Group Company). Consequently, the company's shares are now held by the Somic Group and the ZF Group in the ratio of 50:50.

Somic ZF manufactures ball joints for steering systems and suspension arms mainly for passenger vehicles. Somic ZF has three manufacturing facilities in Gurgaon, Gujarat and Chennai with the machinery largely imported from Japan. The company had a manufacturing facility in Rudrapur (for Tata Motors Limited's Ace), which was shut down in 2016 and the machinery were shifted to the Gurgaon plant. The company's production method is based on the Toyota Production System (TPS) for lean manufacturing, learnt from its Japanese partner.

Key financial indicators (audited)

Somic Zf Components Private Limited	FY2023	FY2024
Operating income	622.0	685.2
PAT	25.0	38.9
OPBDIT/OI	8.6%	9.5%
PAT/OI	4.0%	5.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	69.2	160.8

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 rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	December 16, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based/Non-fund Based –Working capital	Short Term	31.75	[ICRA]A1	October 20,2023	[ICRA]A1	August 18,2022	[ICRA]A1	June 28,2021	[ICRA]A1
Fund-based/Non-fund Based –Working capital	Long term / Short term	5.00	[ICRA]A(Stable) /[ICRA]A1	October 20,2023	[ICRA]A(Stable) /[ICRA]A1	August 18,2022	[ICRA]A(Stable) /[ICRA]A1	June 28,2021	[ICRA]A(Stable) /[ICRA]A1
Term loans	-	-	-	-	-	-	-	-	[ICRA]A(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term –Fund-based/Non-fund Based –Working capital	Simple
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	**Fund-based/Non-fund Based –Working capital**	NA	NA	NA	31.75	[ICRA]A1
NA	**Fund-based/Non-fund Based –Working capital**	NA	NA	NA	5.00	[ICRA]A(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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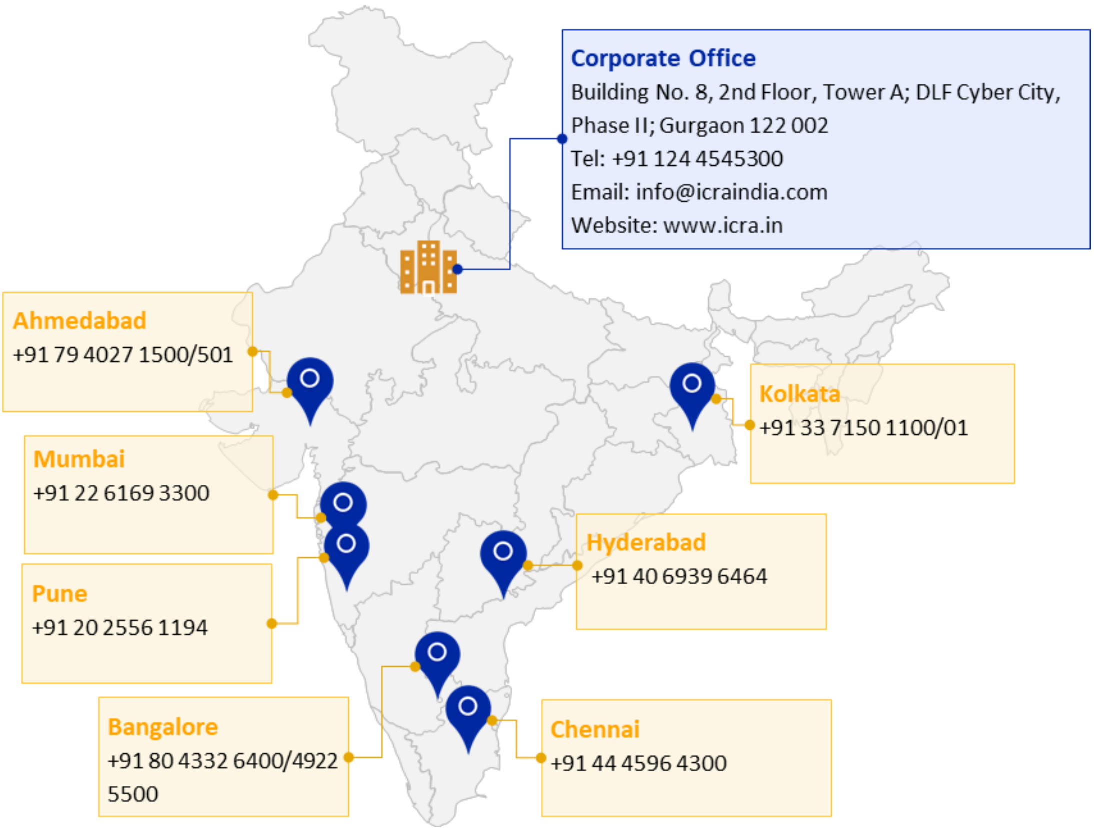

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