January 13, 2025

Automotive Axles Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based – Term loan	10.00	20.00	[ICRA]AA-(Stable); reaffirmed
Long-term/ Short-term –Fund-based/ Non-fund Based Limits	190.00	160.00	[ICRA]AA-(Stable)/ [ICRA]A1+; reaffirmed
Total	**200.00**	**180.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in Automotive Axles Limited's (AAL) stable operational performance in FY2024 and H1 FY2025 despite subdued performance of the underlying commercial vehicles (CV) industry. The ratings continue to consider the company's established position as one of the largest independent axle manufacturers in India, catering to several large medium and heavy commercial vehicle (M&HCV) original equipment manufacturers (OEMs), namely Ashok Leyland Limited (ALL), Daimler India Commercial Vehicles Private Limited (Daimler), Mahindra & Mahindra Limited (M&M), Tata Motors Limited (TML), VE Commercial Vehicles Limited (VECV) and Caterpillar India Private Limited (CAT). The company has established relationships with all major OEMs and enjoys healthy wallet share with them. Apart from this, the company benefits in terms of technology and operational support provided by its parent, Meritor Inc. ICRA expects operational synergies to accrue to AAL as a step-down subsidiary of one of the major global auto-component suppliers.

In line with subdued demand conditions for the domestic commercial vehicle (CV) industry, AAL reported a YoY fall of ~4% and ~11% in revenues in FY2024 and H1 FY2025, respectively. While the operating profit margin (OPM) remained stable at 11.0% in FY2024 on the back of stable raw material prices, the OPM declined to 10.1% in H1 FY2025 following subdued performance of the CV industry, led by General Elections, erratic rainfall and extreme heatwaves. The ratings also favourably factor in AAL's comfortable financial risk profile and robust balance sheet, as evident from its sizeable net worth, low debt levels, and strong liquidity position.

The rating strengths are partially offset by the customer concentration risk with the company deriving 50-60% of its total revenues from ALL. ICRA also notes the operational risk arising from the current business structure of AAL wherein it sells the major portion of its products to OEMs through a related party, Meritor Heavy Vehicle Systems India Limited (MHVSIL, a JV between Meritor Heavy Vehicle Systems LLC (MHVS USA) and Bharat Forge Limited (BFL)). In FY2024, 78.5% of AAL's sales were routed through MHVSIL. ICRA notes that the shareholders have not approved the related party transaction with MHVSIL worth Rs. 2,500 crore for FY2026 in December 2024. While the company is exploring an alternative route for facilitating sales to its customers without any material disruption to its operations, as AAL derives a significant portion of its revenues from supplies to MHVSIL, resolution of the same in a timely manner remains a key rating monitorable, going forward.

The rating also considers the inherent cyclicality in the M&HCV industry. However, ICRA notes the company's efforts to diversify its revenue streams by scaling up its presence in other segments such as defence and off-highway applications, which are expected to yield benefits over the medium-to-long term. Further, the company's profitability is exposed to the volatility in prices of key raw materials, although it is expected to pass on the impact of the same to its customers with some lag. Despite plans of sizeable capital expenditure of Rs. 200-300 crore in the medium term, mainly towards modernising and automating the existing manufacturing facilities, ICRA expects AAL's coverage metrics to remain healthy on the back of sizeable cash accruals and moderate debt levels even as the proposed capex is expected to be funded through a mix of debt and internal accruals.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its strong parentage and established track record of operations and maintain its comfortable financial risk profile over the medium term.

Key rating drivers and their description

Credit strengths

Healthy financial profile characterised by low debt, healthy net worth base, comfortable credit metrics and sizeable cash balances – AAL's financial profile is healthy, supported by a strong net worth base of Rs. 896.8 crore (as on September 30, 2024), healthy cash flows and low debt levels. The company's liquidity position is strong with free cash and liquid investments of Rs. 293.3 crore as on September 30, 2024. Additionally, the company has unutilised working capital limits of ~Rs. 122 crore, as on the same date. Further, AAL enjoys a strong capital structure with low leveraging, and comfortable coverage indicators such as interest coverage of 92.8 times (in H1 FY2025) and DSCR of 23.1 times (as on September 30, 2024). The company's credit metrics are expected to remain comfortable, going forward, despite sizeable capex plans supported by strong earnings.

Technological and operational support by virtue of its parentage – AAL is a 35.52% each joint venture (JV) between BFL and MHVS USA, a leading global supplier of drivetrain, mobility, braking and aftermarket solutions for the CV and industrial markets. Access to knowhow from the global parent provides the company with technological leadership in India. Further, with the acquisition of Meritor by Cummins Inc. globally, the same enhances AAL's access to Cummins' technological prowess and established relationships with global OEMs. Accordingly, the change in ultimate parentage is expected to bring in operational synergies for AAL in terms of new product segments, customers and geographies by leveraging Cummins' standing in the automobile industry

Strong market position in domestic axle and brake manufacturing industry, coupled with established relationships with major OEMs, continues to support business prospects – The company is the largest independent manufacturer of rear drive axles for M&HCVs in India with an established position among domestic OEMs. The company has a strong customer base in the domestic market, catering to all the major OEMs in the Indian CV industry, namely ALL, TML, M&M and VECV, among others. This has supported AAL's business prospects over the years. The company supplies drive axles, TAG axles and brakes to these customers. Additionally, it supplies suspensions to ALL. The company also supplies axles to CAT for its various construction equipment.

Credit challenges

Customer concentration risk; operational risk from reliance on MHVSIL as a marketer and technological support provider – The company has high dependence on ALL, which accounted for 50-60% of its revenues historically. However, the healthy share of business and its long-term association with ALL provide comfort. Further, the increasing share of business with other OEMs like M&M, TML and VECV, along with AAL's foray into the defence sector and plans to increase its presence in the off-highway segment, are expected to reduce the customer concentration, going forward. Additionally, as the shareholders have not approved the related party transaction with MHVSIL worth Rs. 2,500 crore for FY2026, ICRA notes the operational risk arising from AAL's current business structure and understands that the company is currently exploring an alternative route for facilitating sales to its customers without any material disruption to its operations. Resolution of the same in a timely manner will remain a key rating monitorable, going forward.

Exposed to cyclicality inherent in M&HCV industry – AAL derives most of its revenues from CV OEMs, especially the M&HCV segment, exposing its revenues to cyclicality in demand in these segments. However, the company is taking steps to mitigate this risk by increasing its presence in other segments, such as defence and off-highway applications.

Susceptibility of profitability to fluctuations in steel prices – The company's margins are susceptible to volatility in steel prices, though the same is generally passed on to its customers with a lag.

Environmental and Social risks

Environmental considerations: AAL is not directly exposed to climate-transition risks from the likelihood of tightening emission-control requirements. However, its products are used by different categories of OEMs, so its automotive manufacturing customers remain highly exposed to the same. Accordingly, the company's prospects are linked to the ability of its customers to meet tightening emission requirements. However, for the export markets, the company is already supplying higher compliant products and thus will require minor changes for the domestic market. In this regard, the company is taking initiatives to reduce emission in various processes as well as use 80% of power needs through renewables by 2028. The company's exposure to litigation/ penalties from issues related to waste and water management remains relatively lower.

Social considerations: AAL, like most automotive-component suppliers, has a healthy dependence on human capital. Thus, retaining human capital, and maintaining healthy relationships with employees and suppliers remain essential for disruption-free operations. The company has been taking initiatives to train its employees for improving their capacity and capabilities. Another social risk that AAL faces pertains to product safety and quality, wherein instances of product recalls and high-warranty costs may not only result in financial implication but could harm the reputation and create a more long-lasting adverse impact. In this regard, AAL's strong track record in catering to leading automotive manufacturers underscore its ability to mitigate these risks to an extent. The company's strong technological capabilities are likely to help it align its products with any change in customer preferences.

Liquidity position: Strong

AAL's liquidity is strong with healthy cash flow from operations and sizeable free cash and liquid balance of Rs. 293.3 crore as on September 30, 2024. With healthy fund flow generation from operations of ~Rs. 189 crore in FY2024, AAL's dependence on working capital borrowings has been limited, resulting in an average buffer of ~Rs. 122.0 crore from unutilised fund-based working capital lines as on September 30, 2024. AAL has no outstanding term loans as on September 30, 2024, resulting in a strong liquidity profile. The planned capex is expected to be funded through internal accruals and additional term debt, if required.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to strengthen its business profile further through meaningful diversification of its customer base and products, which would aid the company to reduce its exposure to cyclicality on a sustained basis. The company's ability to maintain its profitability and return indicators at healthy levels over industry cycles would also remain critical.

Negative factors – Pressure on AAL's ratings could arise in case of sustained de-growth in revenues on account of the slowdown in industry demand or if deterioration in profit margins affects the debt coverage indicators on a sustained basis. Specific credit metrics that could lead to a rating downgrade include Total Debt/OPBITDA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of AAL.

About the company

Incorporated in 1981, Automotive Axles Limited is a joint venture between MHVS USA and BFL, with the JV partners holding a 35.52% stake each. In February 2022, Cummins Inc. (rated Moody's A2) acquired a 100% stake in Meritor, making AAL an indirect JV of Cummins Inc.

AAL is currently the largest independent manufacturer of rear drive axle assemblies for CVs (primarily M&HCVs) in India. Its product portfolio includes a wide range of axles catering to haulage trucks, tippers, tractor trailers and other off-highway vehicles used for special purposes. The company also supplies drum and disc brake assemblies for trucks, trailers, buses and coaches, and is the second largest brake manufacturer in India after Brakes India Private Limited. Its manufacturing plants are in Mysore (Karnataka), Pantnagar (Uttarakhand), Jamshedpur (Jharkhand) and Hosur (Tamil Nadu).

Key financial indicators (Audited)

AAL Standalone	FY2023	FY2024	H1FY2025*
Operating income	2,323.7	2,229.2	987.2
PAT	162.0	166.2	70.0
OPBDIT/OI	11.1%	11.0%	10.1%
PAT/OI	7.0%	7.5%	7.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	0.4
Total debt/OPBDIT (times)	0.3	0.2	0.1
Interest coverage (times)	88.3	92.8	60.0

*Source: Company, ICRA Research; * Provisional numbers; 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

	Current rating (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Jan 13, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	20.00	[ICRA]AA- (Stable)	Dec 26, 2024	[ICRA]AA- (Stable)	Jan 23, 2024	[ICRA]AA- (Stable)	Mar 03, 2023	[ICRA]AA- (Stable)	Feb 28, 2022	[ICRA]A+ (Stable)
						May 26, 2023	[ICRA]AA- (Stable)			Oct 20, 2022	[ICRA]A+ (Stable)
Fund based	Long Term	-	-	-	-	-	-	-	-	Feb 28, 2022	[ICRA]A+ (Stable)
		-	-	-	-	-	-	-	-	Oct 20, 2022	[ICRA]A+ (Stable)

Non-Fund based	Short-term	-	-	-	-	-	-	-	-	Feb 28, 2022	[ICRA]A1+
		-	-	-	-	-	-	-	-	Oct 20, 2022	[ICRA]A1+
Fund based/ Non-fund-based limits	Long-term/ short-term	160.00	[ICRA]AA-(Stable)/ [ICRA]A1+	Dec 26, 2024	[ICRA]AA-(Stable)/ [ICRA]A1+	Jan 23, 2024	[ICRA]AA-(Stable)/ [ICRA]A1+	Mar 03, 2023	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-
			-	-	-	May 26, 2023	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-	-
Unallocated	Long-term	-	-	-	-	-	-	Mar 03, 2023	[ICRA]AA-(Stable)	Feb 28, 2022	[ICRA]A+(Stable)
		-	-	-	-	-	-	-	-	Oct 20, 2022	[ICRA]A+(Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund based – Term loan	Simple
Long-term/ Short-term –Fund-based/ Non-fund Based Limits	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 analyzing 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, is available on ICRA's website: Click Here

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Term Loan***	FY2025	-	-	20.00	[ICRA]AA-(Stable)
NA	**Fund based/ Non fund based limits**	NA	NA	NA	160.00	[ICRA]AA-(Stable)/[ICRA]A1+

*Source: Company; *As of December 31, 2024 the sanctioned term loan has not been utilised by the company and hence the maturity and coupon rates are not available.*

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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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.

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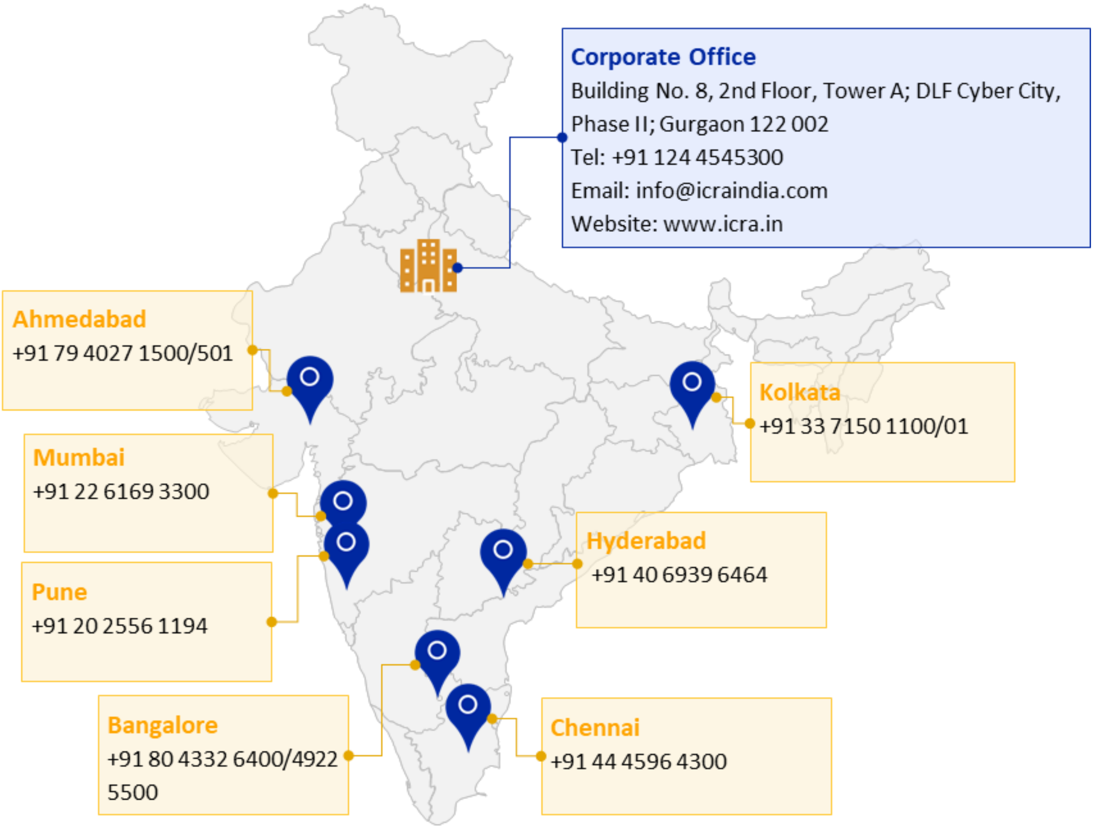

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