

September 29, 2025

Deepak Industries 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 Loans	4.00	0.00	-
Long-term - Fund-based – Working Capital Facilities	93.00	93.00	[ICRA]AA (Stable); reaffirmed
Short-term - Non-fund based – Bank Guarantee/ Letter of Credit/ Forward Cover	24.75	24.75	[ICRA]A1+; reaffirmed
Short-term - Fund-based – Standby Line of Credit	2.00	2.00	[ICRA]A1+; reaffirmed
Long term / Short-term - Unallocated Limit	11.07	1.34	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Total	134.82	121.09	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation continues to factor in an established position of Deepak Industries Limited (DIL) in the automotive and industrial gears market and long relationships with leading OEMs¹ of commercial vehicles (CV) and tractors. Although sales to tractor OEMs rose by 7%, the company's consolidated operating income fell by 7% in FY2025 as sales to CV OEMs declined by 17% due to lower demand and realisation. However, DIL's revenue improved by a modest 3% in Q1 FY2026, on a YoY basis, supported by a rise in sales to the tractor OEMs, despite continuing sluggishness in the medium and heavy CV (M&HCV) segment, the key customer segment for DIL's CV gears. A rise in tractor demand in India in the current fiscal is likely to support DIL's revenue to some extent. Besides, new products developed for various OEMs are likely to generate incremental revenues in the near-to-medium term.

The company passes on the raw material cost increases, albeit with a lag of one month, to its customers in the automotive gear segment. The contracts in the industrial gear segment are firm price in nature, however, the segment's share in DIL's overall revenue remains low (around 16% in FY2025). Moreover, a short time lag between the order receipt and raw material purchases for industrial gears shields DIL's profit margins to adverse fluctuation in the prices of steel, which is its main raw material. DIL's presence in ground gears and other value-added products, which command higher realisations, along with improved performance of the industrial gear segment is likely to support its profitability. ICRA notes that DIL's acquisition of Lotus Auto Engineering Limited (Lotus Auto), an automobile component manufacturing entity, in FY2022, which has been merged with DIL, is likely to provide scope for augmentation of the overall capacity, product lines extension and backward integration, going forward. Besides, accumulated losses in the books of the entity (Lotus Auto) merged with DIL are leading to substantial income tax savings, significantly increasing its net profit (post tax) in FY2025. DIL also acquired a 100% equity stake of Sysaid Technologies Private Limited (STPL), a Bengaluru-based entity, for Rs. 8.75 crore in Q2 FY2025. STPL's turnover stood low at around Rs. 9 crore in FY2025, but its capability and accreditation for providing digital transportation equipment and services for monitoring and control applications for aerospace, automotive, power, railways, industrial OEMs as well as transportation operators provides scope for revenue diversification. The ratings also continue to draw comfort from DIL's healthy business returns, a conservative capital structure with negative net debt position along with strong debt coverage

¹Original equipment manufacturers

metrics. Its healthy earnings, sizeable free cash balance, low debt repayment obligation and limited capex are likely to keep the liquidity position strong.

The long-term rating is, however, constrained by the company's exposure to the cyclicity associated with the CV and tractor segments and its high client concentration risks. However, DIL's reputed clientele mitigates the counterparty risks. Besides, reputed CV OEMs added to its clientele in recent years are expected to reduce the client concentration risk, going forward. Moreover, presence in both the CV and tractor segments mitigates DIL's sectoral concentration risk. ICRA also notes the structural change in the automobile sector with a gradual transition towards electric vehicles (EV), which is likely to hinder demand for automotive gears in the long term. Nevertheless, DIL's vulnerability to such risk will remain limited, given a relatively slower pace of EV penetration in the M&HCV and tractor segments, which are key end-user industries for the company.

The Stable outlook on the long-term rating reflects ICRA's opinion that DIL's established operational track record in the automobile and industrial gear segments would mitigate risks of any material downfall in performance on a sustained basis. The company's credit profile would continue to derive strength from its healthy cash accruals and business returns along with limited need for additional borrowings due to its sizeable free cash and absence of any major capex or acquisition plan.

Key rating drivers and their description

Credit strengths

Established presence in industrial and automotive gears markets; DIL's long relationships and healthy share of business with leading CV and tractor OEMs provide competitive edge – DIL, incorporated in 1954, has an established presence in the domestic industrial and automotive gears markets with a long association with leading CV and tractor OEMs. The company's product offerings include automotive transmission gears and shafts, couplings, gear boxes and engine gears, mainly catering to the M&HCV and the tractor segments along with the light commercial vehicles (LCV) segment, albeit with a limited presence, in addition to the clients in other industries like power, steel, cement, sugar, etc. DIL caters to Tata Motors and Mahindra & Mahindra, which are the market leaders in the CV and tractor segments, respectively, in addition to other established OEMs in these industries including Ashok Leyland, TAFE, Escorts Kubota, Daimler etc. and Dana Group, which is a component supplier to global OEMs. DIL is among the leading players in the automobile gears segment and has a healthy share of business with the OEMs. It is the single/main supplier of various gears and shafts to some of the OEMs, providing significant competitive advantage.

Presence of value-added products and improvement in performance of the industrial gear segment to support profitability – The company has facilities to manufacture high-precision ground gears, mainly in its plant in Baghola, Haryana, which fetches significantly higher realisations. An increasing demand for relatively value-added products like ground gears is likely to support the company's revenues and operating margin. In FY2025, there was a decline in demand of ground gears from customers like Daimler, DANA Group and Tata Motors, however, a recovery in the product's sales is expected, going forward. ICRA also notes that Lotus Auto, which was acquired by DIL in FY2022, and the subsidiary STPL, acquired in FY2025, are likely to provide operational synergies through augmentation of the overall capacity and scopes for enhancement of product lines and value addition, going forward. Besides, the performance of DIL's industrial gear segment, which remained muted historically, improved significantly over the last two years, with revenue and PBIT from the segment steadily growing to Rs. 113.2 crore and Rs. 24.9 crore, respectively in FY2025 from Rs. 99.6 crore and Rs. 4.3 crore only in FY2023, respectively. Improving value addition and turnaround in the industrial gears segment are likely to support DIL's profitability, going forward.

Ability to pass on raw material price hike to customers in the automobile gear segment, albeit with a lag – The company passes on the increase in raw material prices to the clients in the automobile gear segment with a lag of one month, protecting its operating margin from any adverse fluctuation in raw material prices. For the industrial gear segment, the prices remain firm during the contract tenure. However, a lower share of revenue from the industrial gear segment and the company's policy

to purchase raw materials within a short interval from order receipt mitigate the impact of price fluctuation on DIL's profitability.

Robust financial profile marked by healthy ROCE, conservative capital structure and strong debt coverage metrics – DIL's healthy profits at an absolute level kept its return indicators healthy, reflected by a consolidated ROCE of 18.6% and a core ROCE of 27.0% in FY2025, despite some moderation from 22.8% and 33.3% in FY2024, respectively. The company's moderate debt levels compared to its sizeable net worth resulted in a comfortable capital structure, as reflected by a low gearing of 0.1 times over the last three fiscals. DIL's overall leverage was negative on a net debt basis since March 31, 2020, supported by a sizeable free cash balance. Healthy profits and a conservative capital structure led to strong debt coverage indicators of DIL, as reflected by an interest coverage of 30.2 times, total debt relative to OPBDITA of 0.4 times and net cash accruals relative to the total debt of 346% in FY2025, on a consolidated basis.

Credit challenges

Exposed to cyclicity associated with CV and tractor industries, though mitigated to an extent because of presence in both sectors – DIL is exposed to the cyclicity associated with the CV and the tractor industries, which is likely to keep its revenues and cash flows volatile as the two segments together contributed around 84% to the company's sales in FY2025. However, a balanced mix of revenues from the CV and tractors industries, which accounted for 60% and 40% of the company's revenue from the automobile gears segment in FY2025, respectively, is likely to mitigate DIL's sectoral concentration risk. DIL also manufactures gears for various other industries like steel, power, cement, sugar, etc., which accounted for around 16% of its sales in FY2025, leading to revenue diversification. The newly acquired subsidiary, STPL, albeit having a low scale at present, is expected to improve sectoral and customer diversification in future.

Exposed to client concentration risk, however, reputed clientele mitigates counterparty risks – DIL remains exposed to the high client concentration risk as the top two and the top five customers accounted for nearly 55% and 79% of its standalone revenues in FY2025, respectively. This will keep DIL's business operations vulnerable to the performance of its key clientele. However, a reputed client base, coupled with DIL's long association with its clients, mitigates the counterparty risks. Moreover, acquisition of new clients is likely to reduce DIL's client concentration, going forward.

Gradual shift towards EVs likely to hinder demand for automobile gears in the long term – DIL derives the major portion of its revenues from automobile gears. With the transition from fossil-fuel based vehicles to EVs, the demand for gears is likely to diminish as EVs require lower number of gears. However, DIL mainly caters to the M&HCV and tractor segments wherein the transition to EVs is likely to happen gradually over a relatively longer period.

Environmental and social risks

Environmental considerations: DIL, like other auto ancillaries, face physical climate risks due to partial dependence on automobile OEMs (mainly in the tractors segment) that depend on rural demand. Adverse climatic conditions such as droughts and floods may impact farm income and consequently the demand for automobile for a temporary period. Consequently, it would have a ripple effect on the demand for auto components. Certain product segments like engine and transmission parts also face carbon transition risks as customer demand progressively shifts from fossil fuel-based powertrains, and the emission standards further tighten. Besides, innovations in energy technology and higher penetration of electric vehicles may result in product obsolescence in certain cases, while proving advantageous for some others. However, such risk will manifest over the long term for DIL as it mainly caters to the M&HCV and tractors segments where the transition will be gradual compared to the passenger vehicles and LCV segments. The company is focusing on increasing its presence in the electric vehicle segment to mitigate the product obsolescence risk and improve its product diversity. DIL is also exposed to the risks arising from the tightening regulations on the environment front, particularly in the export market, wherein the OEMs are increasingly emphasising on a sustainable supply chain.

Social considerations: Social considerations for auto ancillaries relate primarily to maintaining healthy industrial relations as well as product safety. Further, attracting and nurturing skilled manpower are critical for ancillaries as they seek to keep pace

with innovation and technological changes in the automotive industry. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities for the associated supplier(s). Auto ancillaries also have exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards electric vehicles, usage of sustainable materials, besides societal trends like preference for sharing rides.

Liquidity position: Strong

DIL's liquidity is likely to remain strong. The company had free cash of around Rs. 457 crore as on March 31, 2025. Its cash flow from operations remained healthy at around Rs. 100 crore in FY2025 and is likely to improve, from the current level, in the near-to-medium term. This along with absence of any debt repayment obligations, going forward (except small amount of lease liabilities and residual term debt of Rs. 0.67 crore paid in FY2026) and undrawn working capital limits (Rs. 47 crore as of March 2025) would support DIL's overall liquidity profile. ICRA expects the company to comfortably meet its moderate capex of Rs. 45-50 crore annually in the near-to-medium term through internal accruals and yet be left with a sizeable surplus cash.

Rating sensitivities

Positive factors – An upgrade of the long-term rating will depend on a significant scaling up of operations, product and geographical diversification, along with maintenance of healthy profit margins and liquidity position.

Negative factors – ICRA may downgrade DIL's ratings if there is a significant decline in the company's revenue or profit margins or if any major debt-funded capital expenditure, acquisition or incremental investments in Group entities result in a significant weakening of its credit profile. A deterioration in its total debt/OPBDITA to above 1.0 times on a sustained basis may also be a trigger for ratings downgrade.

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 DIL*. Refer to the Annexure II for the list of entities considered for consolidation

*Previously the rating was based on standalone financials due to unavailability of consolidated results

About the company

DIL manufactures gears, shafts, gearboxes and couplings used in the automobile, tractor and various other industries like power, iron and steel, cement and sugar. In FY2025, the automobile gear segment accounted for 84% of the company's sales (CV and tractors accounted for 60% and 40% of revenues, respectively from automobile gears), while the industrial gear segment and solar power segment contributed around 16% and 0.2% of the standalone revenue, respectively. The company currently has four operational plants located in Kolkata, Faridabad, Rudrapur and Baghola. The Kolkata plant manufactures gears and gearboxes for the industrial segment, while other plants manufacture gears and gear parts for the automobile segment and are strategically located near the plants of the CV and tractor OEMs. DIL is listed on the Calcutta Stock Exchange. Around 70% of the equity ownership of the company is with the promoter Group (Kolkata-based Daga family).

Key financial indicators (audited)

DIL	Standalone		Consolidated			
	FY2024	FY2025	FY2024	FY2025	Q1 FY2025*	Q1 FY2026*
Operating income	777.3	727.2	779.1	727.0	181.4	186.9
PAT	116.5	236.6	115.4	236.3	31.0	31.3
OPBDIT/OI	21.5%	22.2%	21.3%	21.3%	24.1%	22.9%
PAT/OI	15.0%	32.5%	14.8%	32.5%	17.1%	16.8%
Total outside liabilities/Tangible net worth (times)	0.2	0.1	0.2	0.1	-	-
Total debt/OPBDIT (times)	0.4	0.4	0.4	0.4	-	-
Interest coverage (times)	25.8	31.5	25.6	30.2	30.5	37.2

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

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 ratings (FY2026)				Chronology of rating history for the past 3 years			
Instrument	Type	Amount rated (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023
			Sept 29, 2025	Jul 26, 2024	Jun 10, 2024	Apr 11, 2023	Apr 18, 2022
1 Fund-based – Term Loans	Long Term	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
2 Fund-based – Working Capital Facilities	Long Term	93.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
3 Non-fund based – Bank Guarantee/ Letter of Credit/ Forward Cover	Short Term	24.75	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Fund-based – Standby Line of Credit	Short Term	2.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5 Unallocated Limit	Long/ Short Term	1.34	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based – Working Capital Facilities	Simple
Short term - Non-fund based – Bank Guarantee/ Letter of Credit/ Forward Cover	Very simple
Short term - Fund-based – Standby Line of Credit	Simple
Long term / Short term - Unallocated Limit	Not applicable

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 – Working Capital Facilities	-	-	-	93.00	[ICRA]AA (Stable)
NA	Non-fund based – Bank Guarantee/ Letter of Credit/ Forward Cover	-	-	-	24.75	[ICRA]A1+
NA	Fund-based – Standby Line of Credit	-	-	-	2.00	[ICRA]A1+
NA	Unallocated Limit	-	-	-	1.34	[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: Not applicable

Company Name	Ownership	Consolidation Approach
Sysaid Technologies Private Limited*	100%	Full Consolidation

Source: Company; *Acquired in FY2025

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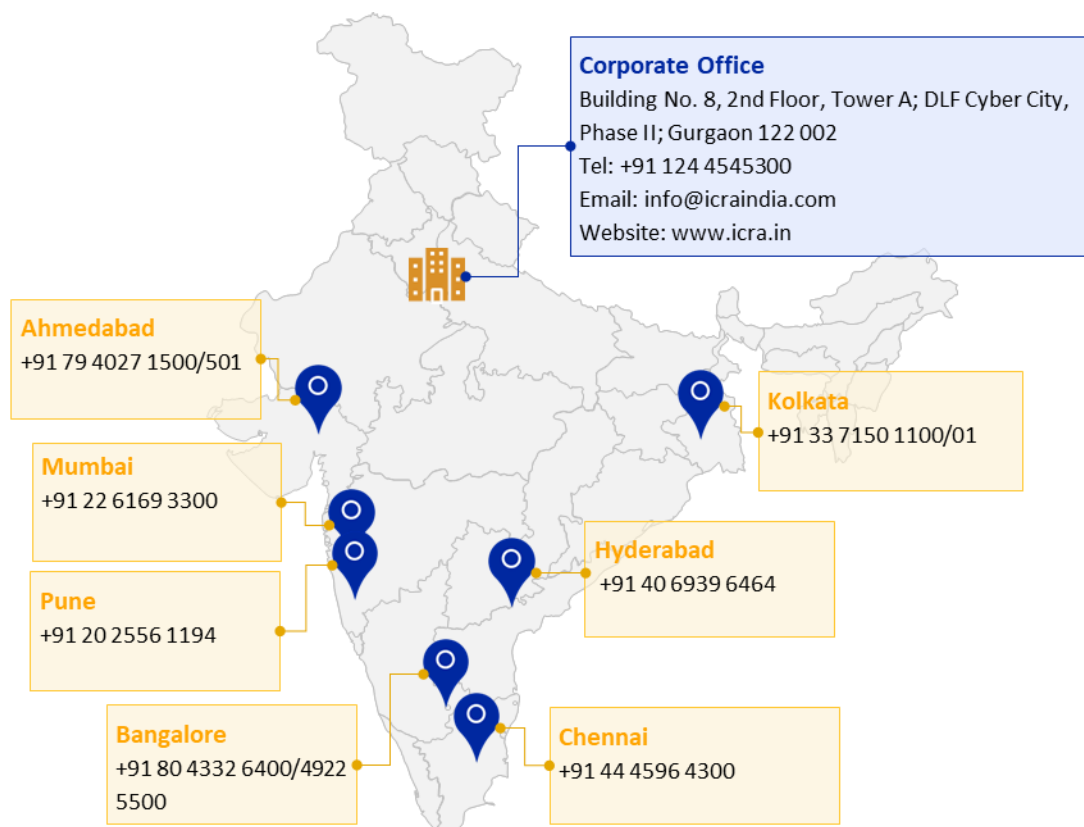


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