

December 31, 2025

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 – Others	4.00	4.00	[ICRA]A2+; Reaffirmed
Total	34.00	34.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for ZF Hero Chassis Systems Private Limited (ZF Hero) factors in its established business position as a single-source supplier of key chassis components for all existing and successor internal combustion engine (ICE) passenger vehicles (PV) of BMW in India, supported by strong relationships enjoyed by its parent – ZF Group – with the European PV original equipment manufacturers (OEMs) globally, including BMW, and its advanced technical capabilities in car-chassis technology. Additionally, the company also benefits from the technical support and financial flexibility from its strong parentage as a 50:50 joint venture (JV) between ZF Chassis Modules Holding, GmbH and Hero Cycles Limited (HCL). After reporting robust revenue growth in FY2024 and FY2025, ZF Hero’s FY2026 revenue is likely to moderate. This is primarily because of some moderation in BMW sales in India, due to the base effect as well as cyclicity inherent in the industry. Nonetheless, the company is expected to sustain a healthy financial profile, depicted by healthy earnings, comfortable capital structure and healthy debt protection metrics.

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. It continues to evaluate opportunities to diversify its customer base in the future. The ratings also factor in its moderate scale of operations because of its niche product segment of luxury cars and dependence on a 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 its hedging practices in the past. ICRA also notes the sizeable dividend payout by ZF Hero, along with royalty payments to the parent companies. Nonetheless, the liquidity position remains comfortable with healthy cash flow generation and no material capital expenditure (capex) outlay.

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 it to generate steady cash flows and maintain healthy coverage metrics.

Key rating drivers and their description

Credit strengths

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 from the robust relationships between ZF Germany and European car OEMs provides 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 reduces business risks for it.

Comfortable capital structure and healthy coverage indicators – The company's capital structure continued to be comfortable, supported by low dependence on debt and steady accretion to reserves, despite a sizeable dividend payout in the recent years. Moreover, coverage metrics have remained healthy with total outside liabilities/total net worth (TOL/TNW) of 0.5 times as on March 31, 2025. Given the steady cash flow generation and no major capex plans, reliance on debt is likely to still be 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, its 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. All components are imported and limited manufacturing is done in-house, causing 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.

Exposed to cyclical 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 cyclical in the auto industry.

Liquidity position: Strong

ZF Hero's liquidity position remains strong, supported by free cash, fixed deposits and liquid investments of around Rs. 118 crore as on November 30, 2025, with a sanctioned working capital limit of Rs. 60 crore, which is still largely unutilised. 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 its liquidity profile.

Rating sensitivities

Positive factors – Ratings can be upgraded if the company reports healthy growth in revenue and earnings, aided by diversification of its business profile with addition of new customers and products.

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. Moreover, pressure on the ratings could arise in case of considerably higher-than-anticipated dividend payout, causing weakening of the liquidity position.

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

ZF Hero is primarily involved in the 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 JV 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)	FY2024	FY2025
Operating income	430.6	498.1
PAT	56.3	57.8
OPBDIT/OI	16.3%	15.4%
PAT/OI	13.1%	11.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	50.0	79.5

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 (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
	Type	Amount rated (Rs. crore)	Dec 31, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash credit	Long term	30.00	[ICRA]A-(Stable)	Nov 04, 2024	[ICRA]A-(Stable)	Oct 06, 23	[ICRA]A-(Stable)	Aug 01, 22	[ICRA]A-(Stable)
Non-fund based – Working capital	Short term	4.00	[ICRA]A2+	Nov 04, 2024	[ICRA]A2+	Oct 06, 23	[ICRA]A2+	Aug 01, 22	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity indicator
Fund-based – Cash credit	Simple
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 – 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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