

February 02, 2026

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	20.00	0.00	-
Long-term/ Short-term – Fund-based/ Non-fund based limits	160.00	135.00	[ICRA]AA-(Stable)/ [ICRA]A1+; reaffirmed
Total	180.00	135.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the ratings factors in Automotive Axles Limited's (AAL/the company) 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). AAL enjoys established relationships and healthy wallet share with major M&HCV OEMs such as Ashok Leyland Limited (ALL), Daimler India Commercial Vehicles Private Limited (Daimler), Mahindra & Mahindra Limited (M&M), Tata Motors Limited (TML) and Caterpillar India Private Limited (CAT). 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 ratings also favourably factor in AAL's comfortable financial risk profile and robust balance sheet, as evident from its sizeable net worth, nil long-term and short-term debt (except acceptances), and strong liquidity position. ICRA notes that the company also benefits from the technology and product development support from its parent, Meritor Inc., through Meritor Heavy Vehicle Systems India Limited (MHVSIL). ICRA expects operational synergies to accrue to AAL as a step-down subsidiary of one of the major global auto-component suppliers.

AAL reported a YoY decline of 7% and 4% in its revenues in FY2025 and H1 FY2026, respectively, largely in line with broader industry trends for the M&HCV segment. While the operating profit margin (OPM) remained stable at 10.6% in FY2025 on the back of stable raw material prices, the OPM contracted slightly to 10.1% in H1 FY2026 following decline in realisations as sales to export markets like Europe and USA remain subdued owing to slowdown in consumption and impact of the US tariffs.

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 that the company has implemented change in business structure with a related party, MHVSIL, a joint venture (JV) between Meritor Heavy Vehicle Systems LLC (MHVS USA) and Bharat Forge Limited (BFL) starting from April 01, 2025. Earlier, AAL used to sell a major share of its products to OEMs through MHVSIL (around 80% in FY2025). This change in business structure is expected to help AAL improve its revenues as well as operating margins as AAL has begun directly selling its products to end-customers. ICRA notes that MHVSIL continues to provide product development, technology and service-related support to AAL in lieu of a certain fee, which has helped the company remain competitive among its peers.

The rating also factors in the inherent cyclicity in the M&HCV industry. ICRA notes the company's efforts to diversify its revenue streams by scaling up its presence in other segments such as defence and off-road applications, which is 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 (capex) of Rs. 120-140 crore in the medium term, mainly towards modernising and automating its 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 likely to be funded through a mix of debt and internal accruals.

The Stable outlook on the rating reflects ICRA's expectation that AAL will likely sustain its operating metrics even as its revenue growth may remain subdued. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further expand the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Strong position in 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 commercial vehicle (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 customers. Additionally, the company supplies axles to CAT for its various construction equipment. ICRA notes that AAL stopped manufacturing suspension systems from FY2026, as it was a low-value and low-volume segment for the company.

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. 1,006.5 crore (as on September 30, 2025), healthy cash flows and low debt levels. The company's liquidity position is strong with free cash and liquid investments of Rs. 403.2 crore as on September 30, 2025. Additionally, the company has unutilised working capital limits of around Rs. 102.4 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 130.1 times (in H1 FY2026) and DSCR of 60.8 times (as on September 30, 2025). The company's credit metrics are likely to remain comfortable, going forward, despite sizeable capex plans supported by strong earnings.

Technological and product development support from MHVSIL by virtue of its parentage – AAL is a 35.52% each 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 its global parent provides the company with technological leadership in India. Further, with the acquisition of Meritor by Cummins Inc. globally, the same enhanced AAL's access to Cummins' technological prowess and established relationships with global OEMs. Further, ICRA notes that the change in ultimate parentage has brought in operational synergies for AAL in terms of new product segments, customers and geographies by leveraging Cummins' standing in the automobile industry. AAL has implemented changes in business structure (effective from April 01, 2025), wherein unlike earlier, AAL will directly sell its products to end-customers while it will continue to receive product development, marketing and service-related support from MHVSIL. This change is expected to help AAL improve its revenues as well as operating margins. ICRA notes that MHVSIL continues to provide product development, technology and service-related support to AAL in lieu of a certain fee, which has helped the company remain competitive among its peers.

Credit challenges

Customer concentration risk – The company has high dependence on Ashok Leyland Limited (ALL), which has 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, efforts to onboard new global OEMs, along with AAL's foray into the defence sector and plans to increase its presence in the off-highway segment, are anticipated to reduce the customer concentration risk, going forward.

Exposed to cyclical inherent in M&HCV industry – AAL derives most of its revenues from CV OEMs, especially the M&HCV segment, exposing its revenues to cyclical 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. ICRA notes that in line with the broader M&HCV industry trends, AAL reported a YoY decline of 7% and 4% in its revenues in FY2025 and H1 FY2026, respectively.

Susceptibility 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.

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. 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.

Liquidity position: Strong

AAL’s liquidity is strong with healthy cash flow from operations and sizeable free cash and liquid balance of Rs. 403.2 crore as on September 30, 2025. AAL’s fund flow generation from operations remained healthy at Rs. 163 crore in FY2025. Further, AAL’s dependence on working capital borrowings has been limited, resulting in a buffer of Rs. 102.4 crore from unutilised fund-based working capital lines against sanctioned limits of Rs. 135 crore as on September 30, 2025. AAL had no outstanding term loans as on September 30, 2025, 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 while maintaining its profitability and return indicators at healthy levels, which would aid the company to reduce its exposure to cyclicalities on a sustained basis.

Negative factors – Pressure on AAL’s ratings could arise in case of sustained decline 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 one of the largest independent manufacturers of rear drive axle assemblies for CVs (primarily M&HCVs) in India. Its product portfolio includes a wide range of axles for 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	FY2024	FY2025	H1FY2026*
Operating income	2,229.2	2,077.5	951.1
PAT	166.2	155.5	71.7
OPBDIT/OI	11.0%	10.6%	10.1%
PAT/OI	7.5%	7.5%	7.5%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.3
Total debt/OPBDIT (times)	0.2	0.3	0.1
Interest coverage (times)	92.8	74.0	130.1

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 (FY2026)			Chronology of rating history for the past 3 years					
					FY2025		FY2024		FY2023	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	-	-	-	Mar 28, 2025	[ICRA]AA-(Stable)	Jan 23, 2024	[ICRA]AA-(Stable)	Mar 03, 2023	[ICRA]AA-(Stable)
			-	-	Jan 13, 2025	[ICRA]AA-(Stable)	May 26, 2023	[ICRA]AA-(Stable)	Oct 20, 2022	[ICRA]A+(Stable)
			-	-	Dec 26, 2024	[ICRA]AA-(Stable)	-	-	-	-
Fund based	Long Term								Oct 20, 2022	[ICRA]A+(Stable)
Non-Fund based	Short-term								Oct 20, 2022	[ICRA]A1+
Fund based/ Non-fund-based limits	Long-term/ short-term	135.00	Feb 02, 2026	[ICRA]AA-(Stable)/ [ICRA]A1+	Mar 28, 2025	[ICRA]AA-(Stable)/ [ICRA]A1+	Jan 23, 2024	[ICRA]AA-(Stable)/ [ICRA]A1+	Mar 03, 2023	[ICRA]AA-(Stable)/ [ICRA]A1+
			-	-	Jan 13, 2025	[ICRA]AA-(Stable)/ [ICRA]A1+	May 26, 2023	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-
			-	-	Dec 26, 2024	[ICRA]AA-(Stable)/ [ICRA]A1+			-	-
Unallocated	Long-term	-	-	-	-	-	-	-	Mar 03, 2023	[ICRA]AA-(Stable)
			-	-	-	-	-	-	Oct 20, 2022	[ICRA]A+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based/ Non fund based limits	NA	NA	NA	135.00	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

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Annexure-II: List of entities considered for consolidated analysis – Not applicable

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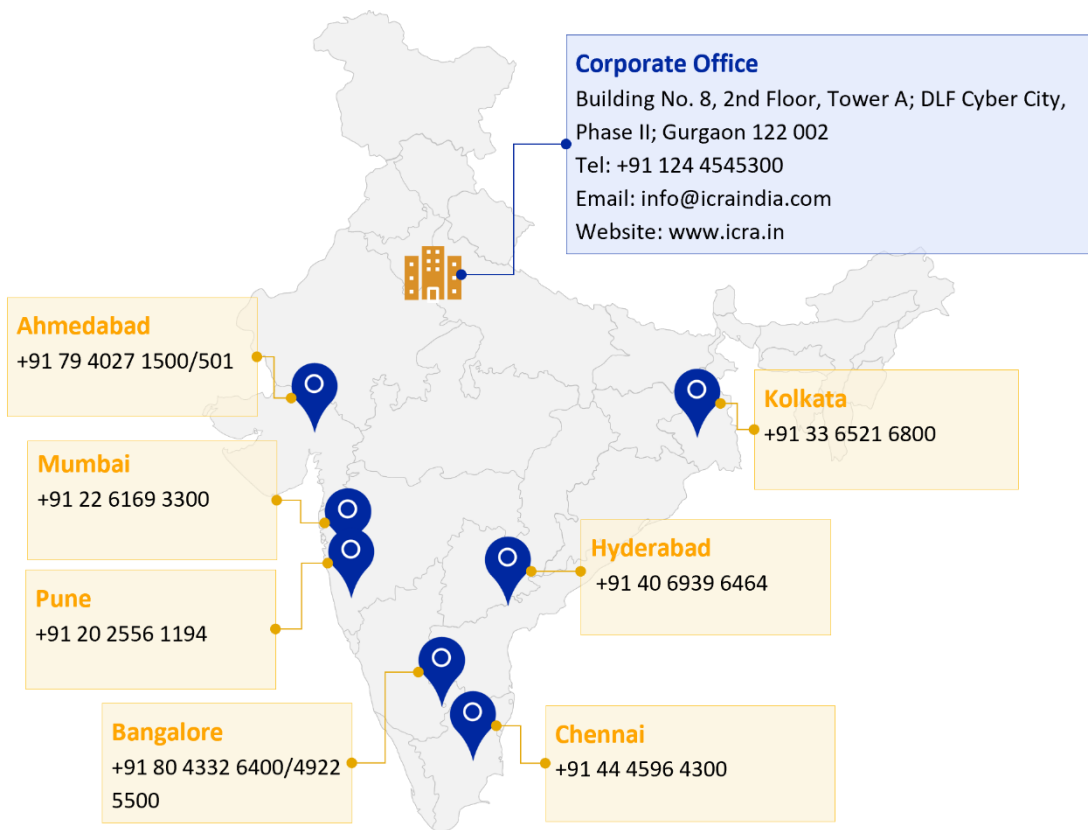
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