September 16 2020

Aptiv Components India Private Limited: Rating reaffirmed at [ICRA]A+ (Stable)/A1+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
CC/WCDL/LC/BG	20.00	40.00	[ICRA]A+(Stable)/A1+; Reaffirmed; assigned to enhanced limits
Total	**20.00**	**40.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings factor in Aptiv Component India Private Limited's (ACIPL) strong parentage as a wholly-owned subsidiary of Aptiv PLC (rated Baa2 Stable by Moody's), its diversified product portfolio and customer base. The ratings also note its comfortable credit profile characterised by nil external debt, sizeable surplus cash reserves and unutilised credit facilities.

The company operates through three major divisions in India — a) electrical distribution systems (EDS; which represents the wiring harness business and contributed~68% of company's revenues in FY2020), b) advanced safety and user experience (ASUX; ~6% revenues) and c) the technology centre (TCI; ~26%), which is a captive software development centre that provides engineering services to its parent company – Aptiv and its entities globally.

ACIPL's revenues grew by 14.4% YoY to Rs. 1,128.9 crore in FY2020, primarily supported by healthy growth in its EDS division, which primarily manufactures wiring harness for passenger vehicle (PV) OEMs. Over the past two to three years, the company's EDS division has reported a strong revenue growth, supported by new customer addition and healthy share of business in the models launched by its existing customers. The revenues from the EDS division grew by 19.5% YoY in FY2020 to Rs. 764.6 crore from Rs. 639.9 crore in FY2019, despite a slowdown in the domestic passenger vehicle (PV) segment. However, the profitability margins of the EDS division moderated during the year because of increase in employee expenses, as the company hired and trained new employees for some of its upcoming businesses. The EDS division continues to maintain a diversified customer portfolio and enjoys a healthy share of business with OEMs such as Mahindra & Mahindra (M&M), Ford, Renault Nissan (RN), Tata Motors (TML), Volvo Eicher Commercial Vehicles (VECV), Fiat Chrysler (FCA) and MG Motors. Besides developing wiring harness for conventional vehicles, ACIPL is working with select OEMs to design and manufacture wiring harness systems for electric vehicles. Going forward, the EDS division is expected to continue to witness healthy revenue growth aided by incremental business from Hyundai Motor India Limited (HMIL) as well as several other new businesses in the pipeline.

The company's overall revenue growth in FY2020 was marginally affected by the weak performance in its ASUX division, as indicated by a 18.7% YoY decline in revenues to Rs. 64.8 crore from 79.7 crore in FY2019. The ASUX division manufactures components such as immobilisers, navigation systems, body control modules and infotainment systems for PVs. However, this division has not grown at a pace comparable to the EDS division because of fewer business orders and weak unit sales for the models in its portfolio. Nevertheless, the ASUX division has secured a new business, which is likely to generate healthy revenues over the near-term.

ICRA notes that over the last few years, the company's performance has steadily improved aided by organic growth of customers and expansion of customer base. The company's credit profile continues to remain comfortable, characterised by healthy cash flow generation, no external debt[1], unutilised working capital facilities of Rs. 40.0 crore and surplus cash balances (~Rs. 150 crore as of August 2020). With improvement in scale of operations, redemption of preference shares and moderate capex plans, ICRA expects its credit indicators to improve further in the near-term, notwithstanding the moderation in earnings during the current fiscal because of disruption caused by the pandemic.

These strengths are, however, partially offset by the company's high segment concentration on the PV sector, the adverse impact of the Covid-19 pandemic-related lockdown on the demand for PVs, vulnerability of profitability to foreign exchange fluctuations due to high raw material import content (in the EDS division in particular) and stiff competition from both domestic and international players.

ACIPL's business profile is characterised by high concentration on the domestic PV industry and its revenue growth will be sensitive to the underlying performance of the PV sector. As per ICRA's estimates, the domestic PV demand is likely to witness a decline of 22%-25% (in unit sales terms) in FY2021, with the lockdown affecting economic environment and consumer sentiments. The weak demand in FY2021 will have an adverse impact on ACIPL's revenue growth as well. However, it will be mitigated partially by the new business wins in FY2021 as well as by the company's presence in the technical centre business, which is a relatively steady business segment (revenues of Rs. 296.1 crore in FY2020 over Rs. 262.3 crore in FY2019) with fairly stable EBITDA margins of 12-14%.

Although the EDS division has grown significantly over the last three years, the company's scale of operations in the addressable segment is significantly lower than the market leader in the wiring harness business for the domestic PV industry, Motherson Sumi Systems Limited (MSSL; [ICRA]AA+(Stable)/A1+). Along with its joint venture, Kyungshin Industrial Motherson Private Limited (KIML; [ICRA]AA(Stable)/A1+), MSSL enjoys leadership position in the domestic PV industry and healthy share of business in the domestic commercial vehicle (CV) industry. Besides MSSL and KIML, ACIPL faces competition from other domestic incumbents such as Minda Furukawa and Yazaki.

The Stable outlook on the long-term rating reflects ICRA's expectation that ACIPL will continue to benefit from its strong parentage as a subsidiary of Aptiv PLC. Moreover, ICRA believes that the company will maintain its comfortable business and financial profile going forward, despite the slowdown in the industry in the current fiscal, supported by its moderate capex plans, sufficient cash balances and new business wins.

Key rating drivers and their description

Credit strengths

Strong business, technology and financial support from Aptiv PLC – The company receives significant support from its ultimate parent company, Aptiv PLC, in the form of both technical knowhow and financial assistance (funding through preference shares and debentures).

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[1]*The company has received financial support from its parent company in the form of non-cumulative optionally convertible redeemable preference shares and compulsorily convertible debentures. The preference shares have been fully redeemed in FY2020.*

Healthy financial risk profile with no external borrowings and surplus cash balances – The company has a strong credit profile with no external borrowings, unutilised working capital facilities and surplus cash balances. This is further supported by limited capital expenditure requirements and comfortable cash flows from operations.

Diversified product portfolio comprising integrated wiring harnesses, body control modules, immobilizers, and audio systems etc.– Although the product diversification of ACIPL declined post the spin-off of its power train division in FY2018, it continues to have a well-diversified product portfolio via its presence in wiring harness, body control modules, infotainment systems and the design and development of embedded software programmes.

Gaining market share with new customers – The company's scale improved in FY2020 with new business from the existing customers and acquisition of new customers. It is also looking at designing wiring harness for upcoming electric vehicle models for some domestic PV OEMs.

Credit challenges

Susceptibility of operating margins to foreign exchange fluctuations due to high raw material import content– The company has high import content in the EDS division (25-30% of raw material costs), as it imports several parts such as engine cables, fuses and clips, which exposes it to foreign exchange risk. However, the foreign exchange risk is mitigated to an extent by its pass-through clause with customers and the currency hedging undertaken by its parent company.

Stiff competition from domestic and international players – ACIPL faces significant competition from domestic and international players for its wiring harness as well as advanced safety and user experience products.

High segment concentration on PV sector; revenues likely to remain subdued in FY2021 due to lockdowns and its impact on the PV demand– Most of ACIPL's sales (excluding sales from the technical centre) is generated by the domestic PV segment, which makes its sales susceptible to the performance of the domestic PV industry. Given the outbreak of the Covid-19 pandemic and the resultant lockdown, the demand for PVs will remain muted in FY2021. The weak demand will have an adverse impact on ACIPL's revenue growth. However, it will be mitigated partially by the new business wins as well as by the company's presence in the technical centre business.

Liquidity position: Strong

ACIPL' liquidity position is **strong** supported by healthy cash flows, surplus cash balances (~Rs. 150 crore as of August 2020) and unutilised working capital limits of Rs. 40.0 crore. ICRA expects the company to maintain its liquidity profile, going forward, because of expectation of healthy cash flow from operations, moderate capex plans (~Rs. 70 crore in FY2021) and no debt repayments in the near term.

Rating sensitivities

Positive triggers – The company's ability to strengthen its business profile by securing new businesses, further improve its market share with PV OEMs or diversification into other automotive segments, while maintaining comfortable profitability and comfortable credit metrics will be considered favourably for a rating upgrade. Strengthening of operational and financial linkages with the parent, could also trigger a rating revision.

Negative triggers – The ratings could face a downward pressure in case of significant weakening in the credit profile of its parent company or weakening of operational linkages with the parent company. The ratings could also be downgraded in case of deterioration in the company's financial profile due to loss of business or any large debt-funded capex.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Aptiv PLC (rated Baa2/Stable by Moody's) The ratings are based on implicit support from its parent company.
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer.

About the company

ACIPL (erstwhile Delphi Automotive Systems Private Limited) was incorporated in April 1995 as a wholly-owned subsidiary of Aptiv PLC (erstwhile Delphi PLC). The company operates through three major divisions in India — a) EDS (represents the wiring harness business and contributed 68% of its revenues in FY2020), b) ASUX (contributing to 6% revenues) and c) TCI (accounted for 26% revenues), which is a captive software development centre that provides engineering services to Aptiv entities globally.

Within the wiring harness segment, ACIPL is positioned as the third largest company by market share. It has a well-diversified product portfolio as well as customer profile with sales to OEMs such as M&M, TML, Ford, HMIL, FCA, Volkswagen (VW) and MG Motors. ACIPL has four manufacturing facilities—two in Chennai, and one each in Dharuhera (Haryana) and Pune (Maharashtra). Most of the models serviced by ACIPL are PVs.

In December 2017, the company spun-off its power-train and after-market divisions into a new company, Delphi Propulsion Systems Private Limited (DPSPL), in line with its global parent, Aptiv PLC. The divestment of assets to DPSPL led to a one-time gain of Rs. 28.9 crore for ACIPL in FY2018.

Key financial indicators (audited)

	FY2018	FY2019	FY2020 (Provisional)
Operating Income (Rs. crore)	810.3	986.4	1128.9
PAT (Rs. crore)	87.3	94.3	
OPBDIT/OI (%)	12.0%	15.0%	10.5%*
PAT/OI (%)	10.8%	9.6%	
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6	
Total Debt/OPBDIT (times)	0.6	0.4	0.2*
Interest Coverage (times)	14.1	18.2	19.6*

**without considering the impact of IND AS 116*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					16-Sep-2020	10-Jun-2019	13-Apr-2018	-
1	CC/WCDL/LC/BG	Long Term and Short Term	40.00	NA	[ICRA]A+ (Stable)/ A1+	[ICRA]A+ (Stable)/ A1+	[ICRA]A (Stable)/ A1	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	CC/WCDL/LC/BG	NA	NA	NA	40.00	[ICRA]A+(Stable)/A1+

Source: Aptiv Components India Private Limited

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

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