

March 06, 2023

ZF Rane Automotive India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loans	55.72	83.38	[ICRA]AA-(Stable); Reaffirmed
Long-term fund based (CC)	100.00	205.00	[ICRA]AA-(Stable); Reaffirmed
Short-term fund based	75.00	-	-
Short-term non fund based	35.00	-	-
Short-term interchangeable	(40.00)	(230.00)	[ICRA]A1+; Reaffirmed
Long-term / Short-term: Unallocated	69.78	47.12	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Total	335.50	335.50	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings draws comfort from ZF Rane Automotive India Private Limited's (ZFRAIPL) healthy operational and financial profile and ICRA's expectations that the same will continue going forward as well. ZFRAIPL has a diversified product portfolio comprising steering gears and pumps, airbags and seat belts, mitigating product-specific risks to a large extent. It is an established player in its product segments and derives technological support from its JV partner, ZF Automotive J.V. US LLC (part of ZF Friedrichshafen AG, which is a reputed global auto component supplier). The company posted a topline of Rs. 1,338 crore in 9M FY2023, reflecting a healthy growth of ~39% YoY, aided by industry demand pick-up and incremental revenues from new businesses. Further, ZFRAIPL's revenue growth is expected to remain healthy going forward, driven by higher revenues from existing customers and new business additions. The anticipated healthy growth for safety-critical auto components, stemming from higher content per vehicle as a result of progressive regulatory tightening and voluntary measures for improvement in vehicle safety are likely to augur well for the company. Also, the strategic acquisition of 1% stake by ZF Automotive J.V. US LLC in the JV has improved access to ZF's technological and production capabilities, in turn translating into incremental business opportunities for the company.

ZFRAIPL's operating profit margins improved by 190 bps on YoY basis to 10.7% in 9M FY2023 vis-à-vis 8.9% in 9M FY2022, benefitting from higher localisation and better operating leverage, despite forex volatility. Its debt metrics also remain comfortable, supported by healthy accruals, despite increase in net debt levels in the last 6-9 months. The company has consolidated capex plans of ~Rs. 60-70 crore in Q4 FY2023 and Rs. 150 crore in FY2024 and Rs. 140 crore in FY2025, for capacity enhancement, localisation and maintenance. The capex is expected to be funded through a combination debt and internal accruals. This is likely to moderate the debt metrics from earlier levels. However, ICRA expects the capitalisation and coverage indicators to remain comfortable over the medium term, aided by healthy improvement in profits and scheduled repayment of term loans. The company's liquidity position is expected to remain adequate over the medium term, supported by its healthy operational profile and strong financial flexibility/lender comfort by virtue of it being a JV between Rane Holdings Limited (RHL; the holding company of the Chennai-based Rane Group) and ZF Automotive J.V. US LLC.

ZFRAIPL has high customer concentration with the top-five customers constituting ~70% of revenues. This exposes the company's revenues to volatility arising from any slowdown in orders from the prime customers. Nevertheless, the company's established presence, long validation/testing cycles in safety-critical products and ZFRAIPL's ability to add new customers mitigate the risk to a large extent. Also, while any issues and consequent recalls in products manufactured by ZFRAIPL could

result in loss of business opportunities, ICRA notes that the company has not had any instances of product recalls in the past. Further, migration from hydraulic power steering (HPS) to electronic power steering (EPS) in the CV space could result in loss of business opportunities. The company is working on EPS for the CV segment, to equip itself as an early mover for the technology.

Key rating drivers and their description

Credit strengths

Financial and operational flexibility as part of the Rane Group; technology support from ZF Automotive J.V. US LLC (ZF) – ZFRAIPL is a 49:51 JV between RHL and ZF Automotive J.V. US LLC. The company is a key company of the Chennai-based Rane Group, well known in both the domestic and international auto ancillary space, with cumulative revenues of over Rs. 5,300 crore in FY2022. The company also derives technology support from ZF Automotive J.V. US LLC (part of ZF Friedrichshafen AG, which is a reputed global auto component supplier). The strategic acquisition of 1% stake by ZF Automotive J.V. US LLC in the JV has improved access to ZF's technological and production capabilities, in turn translating into incremental business opportunities for the company.

Diversified product profile; healthy domestic- export mix – ZFRAIPL manufactures hydraulic power steering gears, pumps and reservoirs under the steering gear division, and airbags, seat belts and cushions under the occupant safety division (OSD). The steering gear products constituted ~47% of 9M FY2023 revenues, while OSD contributed to the remaining. Within OSD, airbags and seat belts contributed to 21% and 24% of the revenues, respectively, while cushions contributed to ~8% in 9M FY2023. The company also derives a healthy proportion of its revenues from exports (~35%, primarily under OSD). The diverse product portfolio and healthy domestic-export mix mitigate the vulnerability of ZFRAIPL's revenues to product or geography specific risks to a large extent. Also, ZFRAIPL is likely to benefit from the anticipated healthy growth for safety-critical auto components, stemming from higher content per vehicle as a result of progressive regulatory tightening and voluntary measures for improvement in vehicle safety.

One of the leading players in hydraulic steering gears and an established player in airbags and seat belts in India; healthy addition of new businesses in FY2022 and 9M FY2023 – ZFRAIPL is a tier-I supplier of automobile components, catering to reputed OEMs in the Passenger Vehicle (PV)/ Utility Vehicle (UV) and Commercial Vehicle (CV) industries. Hydraulic power steering is primarily used in CV and UV, and ZFRAIPL is one of the two major players in the space. ZFRAIPL is also a reputed player in airbags and seat belts and had healthy new businesses/ customer additions in the last one year. While ZFRAIPL's steering gear division is likely to benefit from the growth in the domestic CV industry, ICRA expects ZFRAIPL's occupant safety division to exhibit significant revenue growth going forward, driven by healthy auto volumes, new business wins and higher safety content per vehicle in the near to medium term.

Comfortable capital structure and coverage metrics – ZFRAIPL's capitalisation and coverage indicators have remained comfortable, supported by its healthy accruals. The company's net debt levels have increased in the last 6-9 months (Rs. 283.8 crore as on December 31, 2022, from Rs. 170.9 crore as on March 31, 2022) because of debt-funded capex and higher working capital requirement with top line growth. However, increase in profits and accruals provides comfort. The company's net gearing stood at 0.6 times as on December 31, 2022, while its interest coverage was 20.3 times in 9M FY2023. The company has sizeable debt-funded capex plans over the next two-three years, and this is likely to moderate the debt metrics from earlier levels. Nevertheless, ICRA expects the capitalisation and coverage indicators to remain comfortable over the medium term, aided by healthy improvement in profits and scheduled repayment of term loans.

Credit challenges

Sizeable capex plans as a proportion of anticipated accruals – The company has consolidated capex plans of ~Rs. 60-70 crore in Q4 FY2023 and Rs. 150 crore in FY2024 and Rs. 140 crore in FY2025, for capacity enhancement, localisation and maintenance. While the significant capex could impact ZFRAIPL's free cash flows in the near term, ICRA draws comfort from ZFRAIPL's healthy anticipated cash accruals, its comfortable debt metrics and strong financial flexibility/ lender comfort.

Relatively high customer concentration – ZFRAIPL has relatively high client concentration with its top-five customers constituting ~70% of revenues in H1 FY2023. This exposes the company's revenues to volatility arising from any slowdown in orders from the prime customers. However, ZFRAIPL's established presence, long validation/testing cycles in safety-critical products and its demonstrated ability to add new customers mitigate the risk to a large extent.

Earnings exposed to industry cyclicality, supply-chain issues and forex fluctuations - ZFRAIPL is a tier-I supplier, deriving majority of its revenues from the PV segment (over 55% of the revenues in H1 FY2023), while large part of the balance revenues is contributed by the CV segment (~36%). Akin to other auto component players, the company is exposed to the cyclicality inherent to the automobile industry. ZRAIPL's sales volumes are also susceptible to supply-chain issues, if any. Nevertheless, healthy demand for ZFRAIPL's products and its healthy order book position mitigate the risk to a large extent. Further, the company is a net importer and its earnings are vulnerable to unfavourable forex fluctuations, although its effective hedging mechanism mitigates forex risk to an extent.

Liquidity position: Adequate

ZFRAIPL's liquidity remains adequate supported by its healthy anticipated cash accruals and working capital buffer. The company's average working capital utilisation for the 12-months period ended December 2022 remained comfortable at ~70-75% of the sanctioned limits and drawing power, and it had undrawn working capital lines of Rs. 56.9 crore as on December 31, 2022. As on the same date, ZFRAIPL had cash and liquid investments of Rs. 1.9 crore. As against these sources of cash, the company has long-term debt repayment obligations of Rs. 2.4 crore in Q4 FY2023, Rs. 17.4 crore in FY2024 and Rs. 19.3 crore in FY2025 on its existing loans. Further, the company has consolidated capex plans of ~Rs. 60-70 crore in Q4 FY2023 and Rs. 150 crore in FY2024 and Rs. 140 crore in FY2025, for capacity enhancement, localisation and maintenance. The capex is expected to be funded through a combination debt and internal accruals. Overall, the company's liquidity position is expected to remain adequate over the medium term, supported by its healthy operational profile and strong financial flexibility and lender comfort.

Rating sensitivities

Positive factors – Improvement in profitability and reduction in debt levels leading to an improvement in coverage metrics could lead to a rating upgrade. Specific metrics that could trigger an upgrade would include RoCE above 20% and net debt/OPBDITA of less than 1.0x on a sustained basis.

Negative factors – Negative pressure on ratings could arise with significant weakening in ZFRAIPL's revenues or margins or sizeable increase in debt levels as a result of working capital stretch or significant capex. Specific metrics that could trigger a downgrade could include net debt/OPBDITA of greater than 2.2x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company

ZF Rane Automotive India Private Limited (ZFRAIPL) (formerly known as Rane TRW Steering Systems Private Ltd. (RTSSPL)¹) is a 49:51 joint venture between Rane Holdings Limited [holding company of the Rane Group – an established auto ancillary group in India, rated [ICRA]AA- (Stable)/[ICRA]A1+] and ZF Automotive J.V. US LLC (part of ZF Friedrichshafen AG, which is a reputed global auto component supplier). The company is a tier-I auto component supplier and has two divisions – hydraulic steering gears and occupant safety products. ZFRAIPL manufactures hydraulic power steering and pumps in the former (~47% of revenues in 9M FY2023) and seat belts, airbags and cushions in the latter (~53% of revenues in 9M FY2023). ZFRAIPL derives ~65% of its revenues from the domestic market (36% from PVs, 55% from CVs and the balance from spares and farm tractors) and ~35% from the overseas market (predominantly PVs). While the company only had standalone operations earlier, it has recently incorporated a wholly-owned subsidiary, ZF Rane Occupant Safety Systems Private Limited, for manufacturing a portion of its occupant safety products.

The Rane Group is represented by key companies such as Rane Holdings Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+), Rane Engine Valve Limited, Rane Brake Lining Limited (rated [ICRA]AA- (Stable)/ [ICRA]A1+), Rane (Madras) Limited and Rane NSK Steering Systems Private Limited, apart from ZFRAIPL.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	1,034.1	1,338.7
PAT	25.0	49.4
OPBDIT/OI	8.3%	8.9%
PAT/OI	2.4%	3.7%
Total outside liabilities/Tangible net worth (times)	1.3	1.2
Total debt/OPBDIT (times)	2.6	1.6
Interest coverage (times)	11.2	15.8

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2022 (Rs. crore)	Date & Rating March 06, 2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
						Jan 06, 2022	Dec 27, 2021		
1	Long-term fund based-CC	Long Term	205.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Long-term fund based-TL	Long Term	83.38	83.38	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Short-term fund based –sublimit	Short Term	(150.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

¹ In December 2021, RHL divested equity shares representing 1% of the total shareholding of the company to ZF Automotive J.V. US LLC. At present, RTSSPL operates under the name of ZF Rane Automotive India Private Limited (ZFRAIPL), as against Rane TRW Steering Systems Private Limited earlier.

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
						Jan 06, 2022	Dec 27, 2021	Oct 30, 2020	Jul 5, 2019
4	Short-term non-fund based-sublimit	Short Term	(80.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Long-term/Short-term: Unallocated	Long Term/Short Term	47.12	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – CC	Simple
Long-term fund based – Term loan	Simple
Short-term fund based – sublimit	Simple
Short-term non-fund based	Very Simple
Long-term/Short-term: Unallocated	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 No/ banker name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2018	6.69%	FY2023	1.71	[ICRA]AA- (Stable)
NA	Term Loan-II	FY2018	7.90%	FY2023	11.07	[ICRA]AA- (Stable)
NA	Term Loan-III	FY2021	7.90%	FY2026	13.84	[ICRA]AA- (Stable)
NA	Term Loan-IV	FY2022	8.19%	FY2027	8.19	[ICRA]AA- (Stable)
NA	Term Loan-IV	FY2022	7.48%	FY2027	48.57	[ICRA]AA- (Stable)
NA	Cash credit	NA	6.00%	NA	205.00	[ICRA]AA- (Stable)
NA	Short term loan/Export credit	NA			(150.00)	[ICRA]A1+
NA	LC/BG				(80.00)	[ICRA]A1+
NA	LT/ST: Unallocated				47.12	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
ZF Rane Automotive India Private Limited	NA	Full Consolidation
ZF Rane Occupant Safety Systems Private Limited	100.00%	Full Consolidation

Source: Company

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Branches



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