March 21, 2023

ZF Steering Gear (India) 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
Long-term/ Short-term non-fund based	20.00	20.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation for ZF Steering Gear India Limited (ZFI) continues to factor in its strong credit profile backed by its net debt free position, minimal utilisation of working capital lines and strong liquidity in the form of free cash and liquid investments (Rs. 140.0 crore as on December 31, 2022). The ratings also continue to factor in ZFI's dominant position in the domestic power steering segment and established relationships with key Original Equipment Manufacturers (OEMs) in the domestic commercial vehicle (CV) and tractor sectors. While Robert Bosch Automotive Steering GmbH (RBAS), a major global steering system manufacturer, currently holds 25.89% stake in ZFI, ICRA notes the recent developments regarding the proposed sale of RBAS' stake in ZFI to the Indian promoters and would continue to track developments on this front.

While ZFI has reported a healthy financial risk profile over the years, characterised by comfortable capitalisation and strong liquidity metrics, ICRA notes that it has consolidated capex plans of ~Rs. 90.0 crore over the near term, primarily for backward integration. Given that these investments are likely to be partially debt-funded, there could be some moderation in credit metrics from earlier levels. However, ICRA expects the capitalisation and coverage indicators to remain comfortable over the medium term, aided by its steady earnings profile and with scheduled repayment of term loans. The company's liquidity position is also expected to remain strong over the medium term, supported by its healthy operational profile and cash accruals; nevertheless, developments on the patent infringement allegation by ZF Germany, and payouts for penalties/settlements if any for the same remain a monitorable.

Going forward, the company's revenues are likely to grow at a healthy pace in line with the CV and tractor industry outlook. The ratings, however, remain constrained by the company's modest scale of operations compared to industry peers, susceptibility to the inherent cyclicality in the domestic CV and tractor industries, and the constant need to upgrade and develop new technology-driven products. The company's ability to keep pace with the same, especially in view of the potential exit of the foreign JV partner, remains to be seen.

The Stable outlook on the long-term rating factors in ICRA's expectation that ZFI would continue to benefit from its strong business position with various OEMs, helping it to record stable cash flows and maintain a strong credit profile.

Key rating drivers and their description

Credit strengths

Strong position in domestic steering systems industry for M&HCVs and tractors; established relationships with leading OEMs – The Indian steering gear market is primarily dominated by three major players—viz., JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited; rated [ICRA]AA/Stable/A1+), ZF Rane Automotive India Private Limited (Rane; rated [ICRA]AA-/Stable/A1+) and ZFI. While JTEKT is primarily present in the passenger vehicle (PV) segment, ZFI and the Rane Group are mainly present in the CV and tractor segments. Overall, the domestic Medium and Heavy Commercial Vehicles (M&HCV) and tractor steering systems market is primarily duopolistic, with ZFI and the Rane Group jointly commanding ~90% of the total market share.

Comfortable capitalisation and strong liquidity position – ZFI is net debt-free, resulting in comfortable coverage indicators with Total Debt/ OPBDITA of 0.7 time and DSCR of 50.0 times during FY2022. Its liquidity position remains strong, supported by free cash and liquid investments to the tune of ~Rs. 140 crore as on December 31, 2022 and unutilised working capital limits of Rs. 30 crore. Although the company has some debt-funded capex plans lined up over the near term, pertaining to backward integration initiatives, ICRA believes that the same is not expected to materially impact the credit metrics adversely.

Credit challenges

Susceptible to inherent cyclicality in domestic CV and tractor segments; negligible presence in PVs – ZFI is a tier-I supplier, with most of its revenues coming from the CV segment and minimal presence in the PV segment, which is dominated by JTEKT. Akin to other players, the company is exposed to the cyclical nature of the industry it operates in. Nevertheless, its established market position and strong relationships with its clientele enables the company to mitigate such challenges to an extent. Further, steering systems, as critical automobile components, are subject to changes in design and need technology investments to transition between emission norms or change in fuel to prevent obsolescence.

Developments related to patent infringement and exit of foreign JV partner and associated business implications – On November 13, 2022, ZFI intimated the stock exchanges regarding a communication received from ZF Germany in relation to an alleged infringement of the trademark “ZF” and/or “ZF India”, for which it has demanded Rs. 100 crore from ZFI in damages. While the company is of the opinion that it has not committed any act of infringement, ICRA would continue to monitor developments in this regard as the same can have an impact on the company’s liquidity profile. Further, ICRA also notes the recent development with regard to the potential sale of shares held by RBAS in the company to the Munot family. While the same is under preliminary discussion, business implications of the same and its impact on the company would be assessed once further clarity emerges on the same.

Environmental and social risks

Environmental considerations: Even as ZFI is not directly exposed to climate-transition risks from a likelihood of tightening emission-control requirements, with its products being used by different categories of OEMs, its automotive manufacturing customers remain highly exposed to the same. Accordingly, ZFI’s prospects are linked to the ability of its customers to meet tightening emission requirements. The company may need to invest materially to develop products to cater to electric vehicles (EVs), even as a transition towards the same in the segments catered to is likely to be only gradual. The company has been taking steps to reduce its carbon footprint, by enhancing its reliance on renewable sources; in this respect, the company has an investment in windmills, which contributes 25-30% to the total power consumption for the company. The company’s exposure to litigation/ penalties from issues related to waste and water management remains relatively low, given that one of its plants (at Pithampur) is a zero-discharge plant.

Social considerations: ZFI, like most automotive-component suppliers, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption-free operations for the entity. ZFI has been taking initiatives to impart training, technical-knowledge upgradation and quality initiatives to its employees towards improvement of their capacity and capabilities. Another social risk that ZFI faces pertains to product safety and quality, wherein instances of product recalls and high-warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, ZFI’s strong track record in catering to leading automotive manufacturers underscores its ability to mitigate these risks to an extent.

Liquidity position: Strong

The company has a strong liquidity profile, characterised by expectation of healthy cash flow from operations of Rs. 30-50 crore, and free cash and liquid investments of Rs. 140.0 crore as of December 31, 2022. In addition, the company has a buffer of Rs. 30 crore from unutilised working capital lines as on January 31, 2023. Against these sources of liquidity, the company does not have any scheduled debt repayments, or major capital expenditure (capex) plans; investments of Rs. 90 crore by FY2024 planned for backward integration are expected to be largely funded from its existing sources of liquidity.

Rating sensitivities

Positive factors – The ratings can be upgraded with significant improvement in scale and return indicators (RoCE) on a sustained basis, while maintaining its current level of capitalisation and liquidity position.

Negative factors – There could be downward pressure on ratings if ZFI's operating performance deteriorates, leading to steady decline in profitability, or if its liquidity profile weakens over the medium term.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of ZFI. The company has two subsidiaries, details of which are enlisted in Annexure-2.

About the company

The present promoters of ZF Steering Gear (India) Limited are the Munot Family and Robert Bosch Automotive Steering GmbH (earlier name was ZF Lenkystene GmbH. Name was changed after Robert Bosch acquired 100% shareholding of ZF Lenksysteme GmbH). The company manufactures, assembles and deals in steering gears, with presence across mechanical steering gears as well as hydraulic power steering gears. ZFI's manufacturing plants are located at Shirur district in Maharashtra and Pithampur district in Madhya Pradesh. The company's steering gears are supplied to various state transport undertakings as well as to heavy vehicles like dumpers and haulage trucks. As on December 31, 2022, the promoter group held 67.41% stake in the company, with the Munot family holding 41.62% stake and RBAS holding 25.79% stake. However, there has been recent intimation from the promoter groups regarding the proposed sale of RBAS' stake in the entity to the Munot family.

Key financial indicators (audited)

ZFI Consolidated	FY2021	FY2022	9M FY2023
Operating income	202.7	318.2	325.3
PAT	8.8	18.3	14.5
OPBDIT/OI	9.7%	14.5%	12.3%
PAT/OI	4.4%	5.7%	4.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	NA
Total debt/OPBDIT (times)	1.6	0.7	NA
Interest coverage (times)	67.9	148.7	85.3

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 rating (FY2023)			Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Mar 21, 2023	Nov 29, 2022	Mar 28, 2022	Feb 19, 2021	Aug 03, 2020	Oct 25, 2019	Jun 10, 2019
1	Long-term fund based- Cash Credit	Long-term	30.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
2	Long-term / short-term non-fund based	Long-term/ Short-term	20.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Negative)/ [ICRA]A1+	-	-
3	Term Loan	Long-term	-	-	-	-	-	-	-	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
4	Non-fund based	Short-term	-	-	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based- Cash Credit	Simple
Long-term / short-term non-fund based	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, is 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	Long-term Fund based Limit- Cash Credit	NA	NA	NA	30.00	[ICRA]A+(Stable)
NA	Long-term/ Short-term non-fund based	NA	NA	NA	20.00	[ICRA]A+(Stable)/ [ICRA]A1+

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	ZFI Ownership	Consolidation Approach
Drivesys Systems Pvt Ltd	100.00%	Full Consolidation
Nexsteer Systems Pvt Ltd	100.00%	Full Consolidation

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
Kinjal.shah@icraindia.com

Sruthi Thomas
+91 124 4545 822
sruthi.thomas@icraindia.com

Snehal Kale
+91 22 6114 3445
snehal.kale@icraindia.com

Karan Punjabi
+91 22 6169 3358
karan.punjabi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches