April 19, 2023

JTEKT India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based-Cash Credit	53.35	48.35	[ICRA]AA (Stable); Reaffirmed
Term Loan	107.26	82.88	[ICRA]AA (Stable); Reaffirmed
Fund/Non Fund-based Limits	85.00	85.00	[ICRA]AA (Stable)/ [ICRA] A1+; Reaffirmed
Unallocated Limits	26.65	56.03	[ICRA]AA (Stable); Reaffirmed
Fund Based Limits	12.50	12.50	[ICRA]A1+; Reaffirmed
Non Fund-Based Facilities	30.00	30.00	[ICRA]A1+; Reaffirmed
Total	**314.76**	**314.76**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings factors in JTEKT India Limited's (JIL) leading position as a supplier of steering systems to passenger vehicle (PV) Original Equipment Manufacturers (OEMs) in India, its healthy financial risk profile characterised by low leverage and healthy cash accruals as well as operational and technical support enjoyed by it from its parent company, JTEKT Corporation (JTEKT), Japan.

JIL enjoys a leading position in the steering system segment in India with a strong presence in manual steering gears (MSG), electronic power steering (EPS) and hydraulic power steering systems (HPS). Besides the steering systems division, the company has a driveline division for manufacturing axle assemblies, case differentials and propellant shafts, resulting in a diversified product profile for the entity. The company also started production of a new product, constant velocity joints (CVJ) from September 2022, to expand its driveline division, which would support its revenue growth over the medium term, besides aiding in further diversification of its product portfolio. JIL continues to maintain a healthy share of business (SoB) with some of the leading PV OEMs in India, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra Limited (M&M), Honda Cars India Limited (HCIL) and Toyota Kirloskar Motor Private Limited (TKML), which provides healthy revenue visibility.

The ratings continue to factor in the marketing and technical support received by JIL from JTEKT, a leading global manufacturer of steering systems and driveline products. In addition, its strong parentage lends the company healthy financial flexibility, in terms of access to unsecured debt from Japanese banks (backed by corporate guarantee from the parent entity).

JIL reported a healthy revenue growth of ~35% YoY to Rs. 1,513.7 crore and OPM of 9.0% in 9M FY2023, aided by healthy underlying demand in the PV Industry. Its credit metrics remained healthy with Total Debt/ OPBITDA of 0.3 times and interest cover of 38.8 times in 9M FY2023. JIL continues to maintain a healthy financial risk profile, aided by healthy cash accruals, low debt repayments and moderate capex plans. Going forward, although JIL has capex plans of Rs. 100-120 crore in FY2024, its credit metrics are expected to remain comfortable, aided by its healthy cash accruals.

ICRA notes that JIL is amalgamating its subsidiary company, JTEKT Fuji Kiko Automotive Limited (JFIN, a 51:49 JV between JIL and Fuji Kiko Company Limited, a wholly-owned subsidiary of JTEKT Corporation) with itself. ICRA expects the amalgamation to help improve operational efficiencies leading to cost savings and improve the competitive position of the combined entity.

The ratings remain constrained by the competitive intensity in the steering system space and JIL's segment concentration risks. JIL's business profile is characterised by high concentration in the domestic PV industry and dependence on select OEMs. Going forward, JIL's revenue growth is expected to remain broadly in line with the growth in the PV industry, while being supported by incremental revenues from the CVJ business.

The Stable outlook on the long-term rating reflects ICRA's expectations that JIL will continue to maintain a strong credit profile, aided by strong technological support from its parent entity as well as JIL's dominant position in the supply of steering systems to the domestic PV industry.

Key rating drivers and their description

Credit strengths

Leading manufacturer of steering systems in India with strong SoB with PV OEMs - The company is a leading manufacturer of steering systems in the domestic market, with a high SoB with several PV OEMs such as MSIL, M&M, HCIL and TKML. While the company enjoys a SoB of ~50-55% with the market leader, MSIL, it enjoys a SoB of nearly 100% for supplies to TKML (benefitting from being a part of the Toyota Group) for the products supplied.

Strong parentage provides technical support and aids JIL in securing business from Japanese OEMs in India - JIL receives business and technical support from JTEKT, a leading manufacturer of steering systems and driveline products globally. In addition, its strong parentage lends the company healthy financial flexibility, in the form of access to unsecured debt from Japanese banks (backed by corporate guarantee from the parent entity).

Well-diversified product offerings of steering system and driveline products - The company has diverse product offerings, including CEPS, HPS, MSG and driveline products such as axles assemblies, case differential, propellant shaft. JIL has also developed CVJs, which would help expand its driveline division and diversify its business profile.

Healthy financial risk profile, characterised by low leverage and healthy cash accruals - JIL has a healthy financial risk profile, characterised by a conservative capital structure and strong debt coverage indicators. Its financial risk profile is also supported by its strong liquidity position, characterised by availability of unutilised working capital limits, undrawn term loans and surplus cash and liquid balances (~Rs. 35 crore as of March 31, 2023). Going forward, even as the company has moderate capex plans of ~Rs. 120 crore in FY2024 and ~Rs. 80 to 100 crore p.a. thereafter, its reliance on debt is expected to continue to be low aided by its healthy cash accruals. Accordingly, the company's credit metrics and coverage indicators are expected to remain healthy over the medium term.

Credit challenges

High segment concentration risk with PV sector driving ~95% of sales, exposes JIL to demand vagaries of domestic PV market - JIL generates ~95% of its revenues from PV OEMs, which results in significant segment concentration risk and makes it susceptible to the cyclicality in the PV industry. Nevertheless, the company's favourable ownership pattern, coupled with the healthy SoB enjoyed with various OEMs, mitigates the segment concentration risk to an extent.

Increasing competition in the steering systems market, especially in supplies to key customer, MSIL - JIL faces stiff competition from other steering system manufacturers, because of which it has lost business for few key models in the past. Nevertheless, the company continues to maintain a strong SoB with various OEMs and has been able to gain business for recent product launches of various OEMs. The company's access to technological know-how from its parent entity is expected to help it maintain its strong market position, going forward as well.

Environmental and Social Risks

Environmental considerations: Even as JIL is not directly exposed to the climate-transition risks from a likelihood of tightening emission control requirements, with its products being used across different fuel powertrains, its automotive- manufacturing customers remain highly exposed to the same. Accordingly, JIL's prospects are linked to the ability of its customers to meet tightening emission requirements. The company's exposure to litigation/penalties from issues related to waste and water management remains relatively lower.

Social considerations: JIL, like most automotive-component suppliers, has a healthy dependence on human capital and retaining human capital, maintaining healthy employee relations as well as its supplier ecosystem remain essential for disruption-free operations for the entity. Another social risk that JIL faces is that of product safety and quality, wherein instances of product recalls and high-warranty costs may not only lead to financial implications but could also harm its reputation and create a more long-lasting adverse impact. In this regard, JIL's strong track record in catering to leading automotive manufacturers underscores its ability to mitigate these risks to an extent. The company's strong technological capabilities, aided by support from JTEKT Corporation (Japan), are likely to help it align its products with any changes in customer preferences.

Liquidity position: Strong

JIL's liquidity position is strong, supported by healthy cash flow generation, availability of unutilised working capital limits (average unutilised limit of ~Rs. 130 crore against the drawing power during the 12-month period ended in January 2023), access to undrawn term loans of ~Rs. 25 crore as of March 2023 and surplus cash and liquid balances (~Rs. 35 crore as on March 31, 2023). In addition, the parentage of JTEKT provides the entity with strong financial flexibility and gives it access to unsecured sanctions from Japanese banks at competitive interest rates. Against the aforementioned liquidity, the company has low debt repayments of ~Rs. 13 crore and moderate capex plans of ~Rs. 100- 120 crore in FY2024. Going forward, it is expected to largely meet its capex requirements and debt obligations from internal accruals and available lines of credit, and yet be left with healthy cash surpluses.

Rating sensitivities

Positive factors – A sustained diversification of the company's segmental, product or customer mix would be favourably considered for an upgrade. Significant improvement in the company's return indicators and debt coverage indicators, on a sustained basis, would also augur well for an upgrade.

Negative factors – The ratings may be revised downwards, in case of any significant deterioration in the profitability and credit metrics of the company on account of weakness in demand across the domestic automotive industry, or due to any large debt-funded capex, which adversely impacts its credit profile. Any weakening of the technical and operational linkages with the parent company could also trigger a negative rating action. A specific credit metric for a downgrade is if Net Debt/OPBDITA is above 1.0 times, 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 statements of the issuer. As on March 31, 2023, the company had a subsidiary, which is enlisted in Annexure-2.

About the company

JIL (erstwhile Sona Koyo Steering Systems Limited) is a leading manufacturer of steering systems and driveline products for passenger vehicle OEMs in India. The company commands a market leadership position in the steering system segment in India with strong SoB with OEMs including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra (M&M), Honda Cars India Limited (HCIL), Toyota Kirloskar Motor Private Limited (TKML) and Tata Motors Limited (TML). JIL is a domestic-focused auto component manufacturer and generates 95-96% of its revenues from PV OEMs.

The company manufactures the entire range of steering systems and driveline products. The key manufactured components include manual as well as power steering systems, which comprise steering gears and columns. The driveline product portfolio includes case differentials, axle components, rear axle assemblies, propeller shafts and constant velocity joints (CVJ, new product). JIL supplies these products to various passenger vehicle OEMs. The company's manufacturing facilities are at Gurgaon (Haryana), Dharuhera (Haryana) and Chennai.

The entity was incorporated in 1984 by the Sona Group, as a technical and financial collaboration with JTEKT Corporation, Japan. In Q4 FY2017, JIL's technology partner, JTEKT, bought out a 25.12% stake from its exiting Indian partner, Sona Autocomp Holding Limited, and increased its shareholding in the company to 45.4% from 20.1%. It acquired a further 25% stake in JIL via a public open offer in Q1 FY2018. At present, JTEKT's stake in the company stands at 68.33%.

The company is amalgamating its subsidiary company, JTEKT Fuji Kiko Automotive Limited (JFIN, a 51:49 JV between JIL and Fuji Kiko Company Limited, a wholly-owned subsidiary of JTEKT Corporation), with and into JIL. JFIN manufactures steering column jackets, which along with EPS manufactured by JIL, are collectively used to manufacture CEPS. The proposed consolidation will bring this entire value chain under one umbrella, thereby improving efficiencies, leading to cost savings and improving the competitive position and negotiating power of the combined entity

Key financial indicators (audited)

JIL Consolidated	FY2021	FY2022	9M FY2023*
Operating income	1,333.0	1,588.8	1,513.7
PAT	13.7	41.1	60.9
OPBDIT/OI	7.7%	8.0%	9.0%
PAT/OI	1.0%	2.6%	4.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	-
Total debt/OPBDIT (times)	0.5	0.6	0.3
Interest coverage (times)	21.7	34.1	38.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

*Source: Company, ICRA Research; *Provisional numbers; All calculations are as per ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 19, 2023	Apr 22, 2022	Apr 15, 2021	May 14, 2020
1	Cash Credit	Long term	48.35	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Term Loans	Long term	82.88	39.51	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non Fund-Based Facilities	Short term	30.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund Based Limits	Short term	12.50	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fund/Non Fund-based Limits	Long term and short term	85.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA (Stable)/ [ICRA] A1+
6	Unallocated Limits	Long term	56.03	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
7	Commercial Paper Programme	Short term	-	-	-	[ICRA]A1+ (withdrawn)	[ICRA]A1+	[ICRA]A1+
8	Unallocated Limits	Short term	-	-	-	-	-	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based-Cash Credit	Simple
Term Loan	Simple
Fund/Non Fund-based Limits	Simple
Unallocated Limits	Not applicable
Fund Based Limits	Simple
Non Fund-Based Facilities	Very 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	**Term Loan-I**	FY2021	NA	December 2025	33.29	[ICRA]AA (Stable)
NA	**Term Loan-II**	FY2021	NA	September 2026	49.59	[ICRA]AA (Stable)
NA	**Fund Based-Cash Credit**	NA	NA	NA	48.35	[ICRA]AA (Stable)
NA	**Fund/Non Fund-based Limits**	NA	NA	NA	85.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	**Unallocated Limits**	NA	NA	NA	56.03	[ICRA]AA (Stable)
NA	**Fund Based Limits**	NA	NA	NA	12.50	[ICRA]A1+
NA	**Non Fund-Based Facilities**	NA	NA	NA	30.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	JIL Ownership	Consolidation Approach
JTEKT India Limited	Rated entity	Full Consolidation
JTEKT Fuji Kiko Automotive India Limited (JFIN)	51.00%	Full consolidation

Source: Company data; Note: JFIN is being amalgamated with and into JIL.

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