

June 26, 2024

Brose India Automotive Systems Pvt. Ltd.: [ICRA]BBB(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB(Stable); assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for Brose India Automotive Systems Private Limited (BIAS) factors in the likely stable credit profile of the company over the near-to-medium term. The Brose Group has a strong global presence, with more than a century of experience in the auto component sector, which enables BIAS to leverage on the technical knowledge and the brand presence. The rating also considers BIAS' steady and growing automotive services business to the Brose Group globally, which operates on a fixed-margin basis, its established and reputed customer base, and its increasing focus on the fast-growing electric vehicle (EV) segment, which is expected to boost its future growth. The rating also considers BIAS' stable financial profile, characterised by steady earnings and comfortable capitalisation indicators, given its limited debt levels and healthy liquidity position.

The assigned rating, however, is constrained by BIAS' moderate scale of operations and subdued profitability in the manufacturing segment, which have impacted the overall profitability of the company over the past three years. The operating margins have contracted in the recent years because of business strategies of its key customers as well as rising wage inflation and tooling/development costs related to onboarding of a key EV player. The company has large capex plans related to supply of key components for its EV venture in the near-to-medium term with an estimated spend of ~Rs. 475 crore. The same is planned to be funded through debt from the holding company and internal accruals. Given the low penetration of the EV business currently and the large capex involved, the ability of the company to successfully ramp up its capacity and generate commensurate return from the capex, with gradual diversification in its customer portfolio, will be a key monitorable from the credit perspective. The rating also considers the risks involved due to cyclicity inherent to the auto sector and vulnerability of earnings to the movement in input prices.

The Stable outlook on BIAS' rating reflects ICRA's opinion that the company will continue to benefit for being a part of the century-old Brose Group, its reputed customer base and its focus on the fast-growing EV segment in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Part of century old Brose group in the auto component sector, with strong brand presence: – BIAS is a part of the Germany-based Brose Group, which is a century old family-owned private company, with extensive experience in the auto components segment. The Group is one of major global manufacturers of auto ancillary components, mainly specialising in seat systems, door systems and electric drives and has presence in Europe, Asia and North America. It is expected that BIAS will continue to benefit from the strong brand presence of the Group, which also enables it to leverage on the technological capabilities of the Group.

Reputed client base – BIAS has presence in passenger cars and 2-wheelers segment, where it manufactures products like door modules, latches, seat height adjusters, power lift gates and permanent magnet synchronous motors (PMSM) and supplies it to established and reputed OEMs in India. The company has entered the EV 2-wheelers space in FY2022, wherein it caters to one of the market leaders. Ability of the company to add new clientele in the EV segment will be a positive factor supporting its revenue growth trajectory.

Financial profile supported by limited debt levels and comfortable liquidity – BIAS' financial profile is characterised by limited debt from its holding company. Its funding requirement for business has largely been met by its internal accruals and infusion of money through equity or unsecured loans given by its parent company. As of March 31, 2024, BIAS had unsecured loans of ~Rs. 27 crore provided by the holding company and no external borrowing from banks or financial institutions. Due to its limited debt exposure, the gearing and coverage numbers remained strong. BIAS also has comfortable liquidity, given its sizeable cash and liquid investments and no debt repayments till FY2028. Going forward, the company has sizeable capex plans for its EV venture, however, the same would be largely funded by unsecured loans from its holding company, wherein the interest rate and repayment schedule will remain favourable and will continue to support the credit profile.

Steady visibility of revenues from service segment – BIAS generates 35-45% of its revenues by providing engineering and IT services to its Group companies. The revenues generated from services have recorded a steady growth over the years and has increased at a CAGR of ~20% in FY2024 over the last five fiscal years. The services segment operates on a fixed-margin model, which provides revenue and margin visibility.

Credit challenges

Moderate scale of operations and subdued profitability levels: – BIAS reported revenues of ~Rs. 327 crore in FY2024 (on a provisional basis) and witnessed a growth of ~27% on a YoY basis but its scale of operations remained at a moderate level. The scale of operation remained moderate on account of underutilisation of present capacity for its non-EV business and gradual pick-up expected for the EV business in the near-to-medium term. The profit margins have also remained subdued in the past four years on account of underutilisation of capacity, high wage inflation in services business and large development cost of EV vehicles.

Commensurate returns from significant capital expenditure related to EV segment in near to medium term remains key for credit profile – The company is looking to embark on a significant capex in the near-to-medium term for the expansion of its lines for PMSM and power liftgate products. The capex is expected to be funded through internal accrual and external commercial borrowing (ECB) from its parent company, for which there is already a dedicated credit line in place. Timely commercialisation and commensurate returns in terms of scale of volumes remain critical from the credit perspective.

Client concentration risk – The company is exposed to customer concentration risk as ~68% of its total revenues in FY2024 was derived from the top five customers. BIAS' revenues and profitability were impacted in the recent past on account of exit of two key clients. With focus on EV, the client concentration is expected to increase in the near term. The company's ability to diversify its customer base in the medium term will remain a key monitorable from the credit rating perspective.

Exposure to cyclicalities inherent in domestic auto sector – BIAS generates more than 55% of its revenues from the automotive goods segment, which exposes its revenues and earnings to the inherent cyclicalities in the industry and volatile input prices.

Liquidity position: Adequate

BIAS' liquidity position is adequate with stable cash accruals and nil debt repayment obligations in the near term. Further, the company had free cash and bank balances to the tune of Rs. 52.1 crore as of March 31, 2024. The company does not have any external debt on its books. The large capex plan in the medium term is expected to be covered by support line from the holding company and internal accruals, and is spread over five years with favourable terms of repayment, which is expected to keep the liquidity at an adequate level.

Rating sensitivities

Positive factors – ICRA could upgrade BIAS’s rating if there is a notable increase in scale driven by customer and product diversification coupled with improvement in margins on sustained basis which will lead to overall improvement in financial profile and liquidity position.

Negative factors – Pressure on BIAS’s rating could arise if there is significant decline in scale of operations or profitability, leading to material deterioration in cash flow generation or liquidity profile. Lack of commensurate returns from planned capex leading to deterioration of debt protection metrics will also be negative for the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Brose India Automotive Systems Private Limited (BIAS) was incorporated in 2006 (in Delhi) to provide engineering services to the Brose Group globally. However, in 2011, it expanded its operations and started manufacturing window regulators and manual seat height adjusters (MSHA) at its facility in Pune. It initially catered to VW Bratislava via Brose Bratislava, General Motors and Ford India. In 2015, it started manufacturing door latches and began its supplies to Ford India. Further in 2017, it introduced door modules followed by power liftgates in 2020. In 2022, the company diversified into manufacturing of electric motors for EV scooters. Currently, the company’s product portfolio includes window regulators, door latches, door modules, MSHA, electric motors and vehicle control units.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	227.5	258.7	327.6
PAT	4.12	-3.08	0.05
OPBDIT/OI	8.2%	3.8%	4.5%
PAT/OI	1.8%	-1.2%	0.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.6	0.6
Total debt/OPBDIT (times)	0.0	2.8	1.8
Interest coverage (times)	-	50.5	21.1

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

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
				June 26, 2024	-	-
1 Issuer Rating	Long Term	-	-	[ICRA]BBB(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]BBB(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Suprio Banerjee
+91 22 6114 3400
supriob@icraindia.com

Adish Mali
+91 22 6114 3422
adish.mali@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.