

October 09, 2024

ZF Rane Automotive India Private Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	115.00	146.93	[ICRA]AA- (Stable); reaffirmed/assigned for enhanced amount
Long-term Fund-based – Cash Credit	220.50	300.50	[ICRA]AA- (Stable); reaffirmed/assigned for enhanced amount
Short-term – Interchangeable	(245.50)	(300.50)	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Total	335.50	447.43	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of ZF Rane Automotive India Private Limited (ZFRAIPL) and ZF Rane Occupant Safety Systems Private Limited (ZFROSSPL), with ZFROSSPL being a 100% subsidiary of ZFRAIPL and both sharing strong operational and financial linkages among each other.

The rating action considers the healthy operational profile of ZFRAIPL, its stable financial performance in FY2024 and ICRA's expectation that the same will continue going forward as well. ZFRAIPL has a healthy domestic-export mix and a diversified product portfolio of steering gears and pumps, airbags and seat belts, mitigating geography and product-specific risks to a large extent. ICRA also draws comfort from ZFRAIPL's established position in its product segments and 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 consolidated revenues grew by 15.5% YoY in FY2024 and 8.9% YoY in Q1 FY2025, primarily aided by healthy growth in existing business, incremental revenues from recently added business with its existing customers and ramp up in cushion exports. The anticipated growth for safety-critical auto components, stemming from higher content per vehicle because of progressive regulatory tightening and voluntary measures for improvement in vehicle safety, will support the growth going forward. 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.

The consolidated operating margins stood at 10.2% in FY2024 and 9.4% in Q1 FY2025 (as against 10.3% in FY2023), which is expected to improve, going forward, with benefits from scale economies and improvement in localisation levels. While operating profits have improved over previous years in FY2024 and Q1 FY2025, the coverage indicators have moderated, because of debt-funded capex/acquisition and higher working capital requirement with top line growth. The consolidated net debt/OPBDITA ratio also moderated to 2.5 times as on March 31, 2024 and 3.1 times as on June 30, 2024, against 1.4-1.6x on an average over the last few years. The interest coverage moderated to 7.7 times in FY2024 and 4.7 times in Q1 FY2025, despite improvement in operating profits, on the back of the debt-funded capex in the recent period. The consolidated capex is estimated at Rs. 100 crore in H2 FY2025, Rs. 150 crore in FY2026 and Rs. 100 crore in FY2027 towards capacity enhancement, localisation and maintenance requirements. Nevertheless, ICRA expects the debt indicators to improve over the medium term, aided by healthy improvement in profits, scheduled repayment of existing term loans and working capital management.

ZFRAIPL faces high customer concentration risk with its top five customers generating 73% of revenues in FY2024. This exposes the revenues to volatility arising from any slowdown in orders from its prime customers. Nevertheless, its established

presence, long validation/testing cycles in safety-critical products and ability to add new customers largely mitigate the risk. Also, while any issues and consequent recalls in products manufactured by ZFRAIPL could result in loss of business opportunities, ICRA notes that ZFRAIPL has not had any instances of product recalls historically. Further, migration from hydraulic power steering (HPS) to electronic power steering (EPS) in the commercial vehicle (CV) space could result in loss of business opportunities. It is working on EPS for the CV segment, to equip itself as an early mover for the technology.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its healthy operating profile, adequate liquidity position and improvement in debt indicators.

Key rating drivers and their description

Credit strengths

Financial and operational flexibility as part of the Rane Group; technology support from ZF – ZFRAIPL is a 49:51 JV between Rane Holdings Limited and ZF Automotive J.V. US LLC. The company is one of the key entities of the Chennai-based Rane Group, well known in the domestic as well as international auto ancillary space, with cumulative revenues of over Rs. 7,300 crore in FY2024. The company also derives technology support from ZF (part of ZF Friedrichshafen AG, a reputed global auto component supplier). The strategic acquisition of 1% stake by ZF in the JV in December 2021, has improved access to ZF Friedrichshafen AG's technological and production capabilities, in turn translating into incremental business opportunities for the company.

Diversified product profile; healthy domestic-export mix – ZFRAIPL manufactures HPS gears, pumps and reservoirs under the steering gear division (SGD), and airbags, seat belts and cushions under the occupant safety division (OSD). The SGD products constituted 46% of its FY2023 revenues, while OSD contributed the rest. Within OSD, airbags and seat belts generated 32% and 22% of the overall revenues, respectively. The company also derives a healthy share of its revenues from exports (32% in FY2024, 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 growth for safety-critical auto components, stemming from higher content per vehicle because of progressive regulatory tightening and voluntary measures for improvement in vehicle safety.

Leading player in HPS gears and established player in airbags and seat belts in India; healthy addition of new businesses – ZFRAIPL is a tier-I supplier of automobile components, catering to reputed Original equipment manufacturers (OEMs) in the passenger vehicle (PV)/ utility vehicle (UV) and CV industries. HPS is primarily used in CVs and UVs, and ZFRAIPL is one of the two major players in this space. ZFRAIPL is also a reputed player in airbags and seat belts and has had healthy new businesses/customer additions in the last 2-3 years. While ZFRAIPL's steering gear division is likely to benefit from any growth in domestic CV volumes, ICRA expects ZFRAIPL's occupant safety division to exhibit healthy revenue growth going forward, driven by stable industry demand, new business wins and higher safety content per vehicle in the near to medium term.

Credit challenges

Moderate debt metrics – The consolidated debt indicators have moderated in FY2024 and Q1 FY2025, because of debt-funded capex/acquisition and higher working capital requirement with top line growth. The consolidated net debt/OPBDITA ratio moderated to 2.5 times as on March 31, 2024 and 3.1 times as on June 30, 2024, against 1.4-1.6x on an average over the last few years. The interest coverage has also moderated to 7.7 times in FY2024 and 4.7 times in Q1 FY2025, despite improvement in operating profits, because of increase in debt levels. The consolidated capex is estimated at Rs. 100 crore in H2 FY2025, Rs. 150 crore in FY2026 and Rs. 100 crore in FY2027 for capacity enhancement, localisation and maintenance. Nevertheless, ICRA expects the debt indicators to improve over the medium term, aided by healthy improvement in profits, scheduled repayment of existing term loans and working capital management.

High customer concentration risk – ZFRAIPL faces high client concentration with its top five customers generating 73% of its revenues in FY2024. This exposes the company's revenues to volatility arising from any slowdown in orders from its 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 and forex fluctuations – ZFRAIPL is a tier-I supplier, deriving majority of its revenues from the PV segment (55% of revenues in FY2024), while a large part of the balance revenues is generated by the CV segment (36% in FY2024). Akin to other auto component players, the company is exposed to the cyclicality inherent to the automobile industry. 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 fund-based working capital utilisation for the period August 2023–July 2024 remained comfortable at ~70-75% of the sanctioned limits and drawing power, and it had undrawn working capital lines of Rs. 59.4 crore as on June 30, 2024. Also as on June 30, 2024, ZFRAIPL had consolidated unencumbered cash and bank balances of Rs. 43.4 crore and undrawn term loans of Rs. 20.3 crore. Against these sources of cash, the company has long-term debt repayment obligations of Rs. 32 crore in H2 FY2025, Rs. 55.9 crore in FY2026 and Rs. 58.9 crore in FY2027 on its existing and sanctioned loans. Further, consolidated capex is estimated at Rs. 100 crore in H2 FY2025, Rs. 150 crore in FY2026 and Rs. 100 crore, for capacity enhancement, localisation and maintenance. The capex is expected to be funded through a combination of internal accruals and debt beyond internal accruals. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of funds/debt and be left with adequate cash surplus and buffer in working capital.

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 Auto Components
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 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, 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 (46% of revenues in FY2024) and seat belts and airbags in the latter (54%). ZFRAIPL derives 68% of its revenues from the domestic market and 32% from overseas markets. In terms of segments, PVs constitute 55%, CV forms 36% of revenues, while farm tractors and spares bring up the remaining. While the company only had standalone operations

earlier, it incorporated a wholly-owned subsidiary, ZF Rane Occupant Safety Systems Private Limited, in FY2023, for manufacturing some 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- / [ICRA]A1+; Rating Watch with Developing Implications), Rane (Madras) Limited and Rane NSK Steering Systems Private Limited, apart from ZFRAIPL.

Key financial indicators (audited)

ZFRAIPL Consolidated	FY2023	FY2024
Operating income	1,847.6	2,133.5
PAT	97.2	106.8
OPBDIT/OI	10.3%	10.2%
PAT/OI	5.3%	5.0%
Total outside liabilities/Tangible net worth (times)	1.5	2.0
Total debt/OPBDIT (times)	1.8	2.9
Interest coverage (times)	16.2	7.7

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; 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 (FY2025)		Chronology of rating history for the past 3 years						
		Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credits	Long Term	300.50	09-Oct-2024	[ICRA]AA- (Stable)	11-Jan-2024	[ICRA]AA- (Stable)	06-Mar-2023	[ICRA]AA- (Stable)	06-Jan-2022	[ICRA]AA- (Stable)
			09-Apr-2024	[ICRA]AA- (Stable)	28-Sep-2023	[ICRA]AA- (Stable)	-	-	27-Dec-2021	[ICRA]AA- (Stable)
Term Loans	Long Term	146.93	09-Oct-2024	[ICRA]AA- (Stable)	11-Jan-2024	[ICRA]AA- (Stable)	06-Mar-2023	[ICRA]AA- (Stable)	06-Jan-2022	[ICRA]AA- (Stable)
			09-Apr-2024	[ICRA]AA- (Stable)	28-Sep-2023	[ICRA]AA- (Stable)	-	-	27-Dec-2021	[ICRA]AA- (Stable)
Fund based – Sublimit	Short Term	(300.50)	09-Oct-2024	[ICRA]A1+	11-Jan-2024	[ICRA]A1+	06-Mar-2023	[ICRA]A1+	06-Jan-2022	[ICRA]A1+
			09-Apr-2024	[ICRA]A1+	28-Sep-2023	[ICRA]A1+	-	-	27-Dec-2021	[ICRA]A1+
Non-fund based - Sublimit	Short Term		09-Oct-2024	[ICRA]A1+	11-Jan-2024	[ICRA]A1+	06-Mar-2023	[ICRA]A1+	06-Jan-2022	[ICRA]A1+
			09-Apr-2024	[ICRA]A1+	28-Sep-2023	[ICRA]A1+	-	-	27-Dec-2021	[ICRA]A1+
Fund based	Short Term	-	-	-	-	-	-	-	06-Jan-2022	[ICRA]A1+
			-	-	-	-	-	-	27-Dec-2021	[ICRA]A1+
Non-fund based	Short Term	-	-	-	-	-	-	06-Jan-2022	[ICRA]A1+	

		-	-	-	-	-	-	27-Dec-2021	[ICRA]A1+
Unallocated	Long Term/Short Term	-	-	11-Jan-2024	[ICRA]AA-(Stable)/[ICRA]A1+	06-Mar-2023	[ICRA]AA-(Stable)/[ICRA]A1+	06-Jan-2022	[ICRA]AA-(Stable)/[ICRA]A1+
		-	-	28-Sep-2023	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	27-Dec-2021	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company,

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loans	Simple
Long-term Fund-based – Cash Credit	Simple
Short-term – Interchangeable	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	Cash Credit	NA	6.00%	NA	300.50	[ICRA]AA- (Stable)
NA	Term Loans	FY2022	~8-9%	FY2029	146.93	[ICRA]AA- (Stable)
NA	Short Term Loans/ Export Credit	NA	NA	NA	(300.50)	[ICRA]A1+
NA	Letter of Credit/BG	NA	NA	NA		[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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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