

Sona Koyo Steering Systems Limited

March 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	81.35	81.35	[ICRA]AA (Stable); Upgraded from [ICRA]AA-(Positive)
Term Loans	244.99	193.16	[ICRA]AA (Stable); Upgraded from [ICRA]AA-(Positive)
Short-term Non-Fund based	55.00	40.00	[ICRA]A1+; Reaffirmed
Short-term Fund Based	52.50	52.50	[ICRA]A1+; Reaffirmed
Commercial Paper	15.00	15.00	[ICRA]A1+; Reaffirmed
Long-term Unallocated	74.95	126.78	[ICRA]AA (Stable); Upgraded from [ICRA]AA-(Positive)
Short-term Unallocated	0.00	15.00	[ICRA]A1+; Reaffirmed
Total	523.79	523.79	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus) for the cash credit facilities, term loans and unallocated limits of Sona Koyo Steering Systems Limited ('SKSSL' or 'the company'). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the short-term fund-based limits, short-term non-fund based limits, commercial paper and short-term unallocated limits of SKSSL. The outlook on the long term rating is revised to 'Stable' from 'Positive'.

Rationale

The upgrade in rating favourably factors in the ongoing amalgamation process of SKSSL's 49% subsidiary, JTEKT Sona Automotive India (JSAI; remaining 51% with JTEKT Corporation, Japan), and strong financial and business support from its parent company, JTEKT Corporation, Japan (JTEKT). The integration process is in line with ICRA's expectation.

In Q1 FY2018, JTEKT concluded its open offer and raised its stake in SKSSL to 70.45%. JTEKT is now looking to integrate its two key entities in the steering system division, SKSSL and JSAI. As per the terms of the transaction, JTEKT will receive 1.582 share of SKSSL for each of its equity share in JSAI.

As per an earlier business alignment, JSAI manufactures the column type electronic power steering (CEPS) system, while SKSSL manufactures the manual steering gear (MSG), hydraulic power steering (HPS) and CEPS for Indian original equipment manufacturers (OEMs) alone. After the amalgamation concludes in Q1 FY2019, the entire steering system will be manufactured under a single entity. This will benefit the company in acquiring new business and improve its profitability by reducing corporate overhead costs. Once the amalgamation process is concluded, SKSSL will pre-pay some of its long-term debt obligations using the surplus cash on JSAI's balance sheet. This will help the company reduce its interest cost, increase the net profit margin and strengthen its credit profile.

The company has announced that it will be changing its name to 'JTEKT India Limited' to reflect the close linkage with its parent company. The name change will increase customer confidence because JTEKT is a leading manufacturer of steering systems globally with a high share of business with Toyota and Suzuki.

The rating continues to factor in SKSSL's leading position in the steering system segment in India with strong presence in MSG, EPS and HPS systems. SKSSL continues to maintain healthy share of business with some of the leading passenger vehicle (PV) OEMs in India, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra Limited (M&M), Honda Cars India Limited (HCIL), Toyota Kirloskar Motor Private Limited (TKML) and FIAT India.

Although SKSSL is positioned as the leading player in the steering system space, it faces stiff competition from the Rane Group, which is present in the segment through entities such as Rane Madras (for manual steering gears) and Rane NSK (for C-EPS). Further, as part of their strategy to mitigate vendor concentration, OEMs tend to mitigate the risk by appointing more than one supplier. SKSSL's key customer, MSIL, has also been following this strategy, which may limit growth prospects for SKSSL, going forward. The ratings continue to factor SKSSL's high concentration on the domestic PV industry and dependence on select OEMs.

Outlook: Stable

ICRA believes SKSSL will continue to maintain its leading position in the PV industry. The amalgamation of JSAIL will further strengthen the company's business position, profitability and credit profile. The outlook could be revised to Positive if SKSSL is able to substantially increase its exports business while maintaining its market position in India. The outlook could be changed to Negative if the company's financial profile deteriorates significantly or if it loses market share.

Key rating drivers

Credit strengths

Leading manufacturer of steering systems in India with strong share of business with PV OEMs – The company is the leading manufacturer of steering systems with a high share of business with multiple PV OEMs such as MSIL, M&M, HCIL and TKML.

Well diversified product offerings with presence in PV and Utility Vehicle (UV) segments - The company has a diverse product offering including CEPS, HPS, MSG and driveline products and caters to PV as well as UV segments.

Majorly owned by JTEKT (a Toyota Group company), a prominent global steering system manufacturer - The company receives business and technical support from its parent company. Its parentage from JTEKT also helps the company's financial flexibility via access to debt from Japanese banks.

Amalgamation of JSAIL to benefit the financial and business profile of the company - The amalgamation of JSAIL will benefit the company by reducing corporate overhead costs, expanding product profile and lowering its debt obligations using the surplus cash on JSAIL's balance sheet.

Credit challenges

The company lost business in a few key models because of rising competition in the steering systems industry – SKSSL faces stiff competition from other steering system manufacturers such as the Rane Group, because of which it has lost business in a few key models in the recent past.

Conversion cost for increase in raw material costs are not covered - Although raw material costs are negotiated with OEMs as per commodity index, conversion costs are not covered, which could impact profitability in the light of increasing labour and fuel costs.

High segment concentration with ~93% of sales generated by the PV sector – SKSSL generates approximately 93% of its net sales from PV OEMs, which makes it susceptible to the cyclical nature in the PV industry.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

About the company:

Sona Koyo Steering Systems was established in 1985 by the Sona Group with technical and financial collaboration with JTEKT Corporation, Japan (JTEKT). It is involved in the manufacturing of steering systems and driveline products. Steering systems 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 and propeller shafts. SKSSL supplies these products to various passenger vehicle OEMs, including Maruti Suzuki India Limited, Mahindra & Mahindra, Tata Motors Limited, Toyota Kirloskar Motor Private Limited, etc. The company's manufacturing facilities are located in Gurgaon (Haryana), Dharuhera (Haryana), Chennai and Sanand (Gujarat). A new land has been acquired at Jalisana (Gujarat), which will be developed later to cater to MSIL's new plant in Gujarat.

In Q4 FY2017, SKSSL's technology partner, JTEKT, bought out 25.12% stake in its 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 SKSSL via a public open offer in Q1 FY2018. At present, JTEKT's stake in the company stands at 70.45%.

The company has recently announced that it will be amalgamating its subsidiary, JSAL, and will be renaming the amalgamated entity as JTEKT India Limited.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY 2016	FY 2017	FY 2016	FY 2017
Operating Income (Rs. crore)	1,077.4	1,164.9	1,518.3	1,583.2
PAT (Rs. crore)	25.0	23.6	37.0	36.5
OPBDIT/ OI (%)	10.8%	11.1%	12.9%	13.1%
RoCE (%)	11.5%	11.0%	15.2%	14.5%
Total Debt/ TNW (times)	1.1	0.8	0.7	0.5
Total Debt/ OPBDIT (times)	2.5	1.9	1.7	1.2
Interest coverage (times)	4.1	5.0	5.9	7.0
NWC/ OI (%)	7.8%	5.1%	9.6%	7.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount O/s* (Rs. crore)	Date & Rating Mar 2018	Date & Rating in FY2017 Feb 2017	Date & Rating in FY2016 Mar 2016	Date & Rating in FY2015 Feb 2015
1 Cash Credit	Long Term	81.35	NA	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]A+ (Stable)/ A1+	[ICRA]A+ (Stable)/ A1
2 Term Loans	Long Term	193.16	165.67	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]A+	[ICRA]A+
3 Short-term Non-Fund based	Short Term	40.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
4 Short-term Fund Based	Short Term	52.50	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
5 Commercial Paper	Short Term	15.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
6 Unallocated	Long Term	126.78	NA	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
7 Unallocated	Short Term	15.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2016	10.7%	FY2020	0.16	[ICRA]AA(Stable)
NA	Term Loan 2	FY2016	10.7%	FY2022	0.86	[ICRA]AA(Stable)
NA	Term Loan 3	FY2014	10.65%	FY2019	6.75	[ICRA]AA(Stable)
NA	Term Loan 4	FY2015	10.5%	FY2020	28.00	[ICRA]AA(Stable)
NA	Term Loan 5	FY2014	10.15%	FY2020	27.00	[ICRA]AA(Stable)
NA	Term Loan 6	FY2016	10.7%	FY2022	30.00	[ICRA]AA(Stable)
NA	Term Loan 7	FY2016	10.2%	FY2021	30.89	[ICRA]AA(Stable)
NA	Term loan 8	FY2017	10.2%	FY2023	29.50	[ICRA]AA(Stable)
NA	Term Loan 9	FY2017	10.0%	FY2023	40.00	[ICRA]AA(Stable)
NA	Cash Credit Limits	NA	NA	NA	81.35	[ICRA]AA(Stable)
NA	Short-term fund-based limits	NA	NA	NA	52.50	[ICRA]A1+
NA	Short-term non-fund based limits	NA	NA	NA	40.00	[ICRA]A1+
NA*	Commercial Paper			NA	15.00	[ICRA]A1+
NA	Long-term Unallocated Limits	NA	NA	NA	126.78	[ICRA]A1+
NA	Short-term unallocated limits	NA	NA	NA	15.00	[ICRA]A1+

Source: Sona Koyo Steering Systems Limited; No CP outstanding

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