

## ZF Steering Gears (India) Limited

April 05, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	50.00	50.00	[ICRA]A+(Stable) reaffirmed
Long-term fund based	4.00	4.00	[ICRA]A+(Stable) reaffirmed
Short-term non-fund based	11.65	11.65	[ICRA]A1+ reaffirmed
<b>Total</b>	<b>65.65</b>	<b>65.65</b>	

### Rating action

ICRA reaffirmed the long-term rating of [ICRA]A+(pronounced ICRA A plus) outstanding on the Rs. 50 crore term loan, Rs. 4.0 crore long-term fund-based facilities of ZF Steering Gears (India) Limited (ZFI/the company). ICRA has also reaffirmed the short-term rating of [ICRA]A1+(pronounced ICRA A one plus) on the Rs.11.65 crore short-term non fund-based facilities of ZF.

### Rationale

The ratings reaffirmation continues to reflect ZFI's strong position in the domestic power steering segment; its strong relationship with domestic automobile OEMs and its superior operating efficiencies. The ratings also favourably factor in its healthy profitability indicators, comfortable capital structure and liquidity position. ICRA notes that ZFI's presence in renewable energy continues to support profitability during slowdown in core automotive business. The rating strengths are partially offset by ZFI's modest scale of operation; susceptibility to inherent cyclicity in domestic heavy commercial vehicle (HCV) and tractor industry and continuous need to upgrade technology in view of technology-intensive nature of products. ZFI has a joint venture with Robert Bosch Automotive Steering GmbH (RBAS), which is involved in manufacturing electrical steering systems for the passenger vehicle segment. As on date, ZFI has invested over Rs 125 crore in this JV. The JV has been incurring losses and would continue to incur losses in the near to medium term given sub-optimal capacity utilization and will need additional capital to fund its losses. Going forward, JV's ability to achieve breakeven remain crucial, as it continues to drag overall profitability as well as capital structure of the company.

### Outlook: Stable

ICRA believes ZFI will continue to benefit from its strong position in steering supplies for M&HCV industry. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

## Key rating drivers

### Credit strengths

**Dominant position in the domestic steering systems industry for Heavy Commercial Vehicle (HCV) and tractor, with long standing relationship with leading OEMs**

Indian steering gear market is largely dominated by three major players viz Sona Koyo steering systems Limited (rated [ICRA] AA/Stable/A1+), Rane T R W (rated [ICRA]AA-/Stable/A1+) and ZFI. While Sona Koyo is primarily present in passenger vehicle segment, ZFI and Rane are largely present in commercial vehicle and tractor segment. Overall domestic CV and tractor steering system market is largely duopolistic in nature with ZFI and Rane accounting for ~90% market share.

**Strong financial risk profile with healthy profitability and comfortable capital structure**

ZFI has maintained strong operating margins over 20% in the last three fiscals driven by complex nature of product, strong market position and operational efficiencies. With low gearing of 0.2x and comfortable coverage indicators with Total debt/ OPBDITA of 0.7x and DSCR of 16.7 x as of March 31, 2017, the company's financial profile remains strong.

**Strong liquidity position supported by liquid investments (including un-encumbered cash) to the tune of ~Rs. 56 crore as on March 2017**

The company had cash & bank balance and liquid investments (equity shares and mutual funds) to the tune of ~Rs. 56 crore as on 31 March 2017 which coupled with minimal working capital limit utilization of ~0.2% results in healthy liquidity position for the company.

### Credit challenges

**Susceptible to inherent cyclical in domestic CV and tractor segment though long-term prospects of both the sectors remains healthy; negligible presence in PV segment and power steering segment of tractor business**

While both tractor as well as M&HCV segments are cyclical in nature, the long-term prospects for both these industry segments are favorable because of low tractor penetration in India and improving road infrastructure which is a key growth driver for HCV segment. The company has limited presence in the passenger vehicle segment.

**Regular fund infusion in loss making JV resulting in suppressed return indicators;**

RBAS and ZFI have setup Robert Bosch Automotive Steering Private Limited, in which ZFI holds 26% stake. Till December 2017, ZFI infused Rs 125 crore as its 26% equity share in the company. The JV has been incurring losses and would continue to incur losses in the near to medium term given sub-optimal capacity utilization and will need additional capital to fund its losses.

**Continuous need to upgrade technology in light of technology-intensive nature of products**

Steering systems being a critical component in an automobile, is subject to design changes during transition between emission norms or change in fuel and hence requires frequent investments in technology to prevent obsolescence.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company:

Z F Steering Gear (India) Limited was founded by promoted by Munot Family and ZF Lenkystene. Later, Robert Bosch Automotive Steering GmbH acquired ZF Lenkystene and renamed it Robert Bosch Automotive Steering GmbH. The company manufactures, assembles and deals in steering gears with an installed capacity of 2 lakh units of Mechanical Steering Gears and 3.75 lakh units of Hydraulic Power Steering Gears per annum. The company has its manufacturing plant at village Vadu Budruk Tal. Shirur, Pune, Maharashtra.

The company's steering gears find application in buses and are supplied to various state transport undertakings and also to heavy vehicles like dumper and haulage trucks. Buses fitted with power steering gears reduce the drivers' effort and fatigue to steer the vehicle and adds to their safety.

In FY2017 the company reported a net profit of Rs. 44.5 crore on an operating income of Rs. 390.0 crore, as compared to a net profit of Rs. 45.1 crore on an operating income of Rs. 381.4 crore the previous year.

## Key financial indicators (audited)

	<b>FY2016</b>	<b>FY2017</b>
Operating Income (Rs. crore)	381.4	390.0
PAT (Rs. crore)	45.1	44.5
OPBDIT/ OI (%)	20.7%	20.5%
RoCE (%)	18.8%	16.6%
Total Debt/ TNW (times)	0.2	0.2
Total Debt/ OPBDIT (times)	0.9	0.7
Interest coverage (times)	44.6	32.1
NWC/ OI (%)	19.3%	19.3%

Source: ZF

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	FY2017	FY2016	FY2015
1 Term Loan	Long-term	50.00	50.00	Apr 2018 [ICRA]A+ (Stable)	Mar 2017 [ICRA]A+ (Stable)	Mar 2016 [ICRA]A+ (Stable)	Feb 2015 [ICRA]A+ (Stable)
2 Long-term fund based	Long-term	4.00	4.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Short-term non-fund based	Short-term	11.65	11.65	[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](http://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	February 2017	NA	May 2021	50.00	[ICRA]A+(Stable)
NA	Long-term fund based	NA	NA	NA	4.00	[ICRA]A+(Stable)
NA	Short-term non-fund based	NA	NA	NA	11.65	[ICRA]A1+

Source: ZFI

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