

Delphi Automotive Systems Private Limited

April 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
CC/WCDL/LC/BG	40.00	40.00	[ICRA]A(Stable)/A1; Upgraded from [ICRA]A-(Stable)/A2+
Total	40.00	40.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating outstanding on the Rs. 40-crore bank facilities of Delphi Automotive Systems Private Limited (DASPL) to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus)¹. ICRA has also upgraded the short-term rating outstanding on DASPL to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus). The outlook on the long-term rating is Stable.

Rationale

The ratings upgrade takes into consideration the improvement in DASPL's business position over the past couple of years, driven by its improving share of business in the electrical distribution systems division (wiring harness business). ICRA notes the addition of new customers, which along with cost-reduction initiatives and benefits of operating leverage, has supported a significant improvement in the company's earnings and cash flows generation. The assigned ratings continue to factor DASPL's strong parentage as a wholly-owned subsidiary of Aptiv PLC, its improving business profile in the Indian market aided by new business orders and comfortable credit profile characterised by nil external debt, sizeable surplus cash reserves and unutilised credit facilities.

Counterbalancing these strengths are the company's weaker profitability indicators vis-à-vis its peers, high foreign exchange exposure (owing to dependence on imports) and high concentration on select product segments, especially wiring harness and advanced safety and user experience products such as body control modules and infotainment systems. The share of these product segments is expected to further increase, following the company's decision to hive-off its power-train and aftermarket operations (26% of its turnover in FY2017) into a separate company. Till 8M FY 2018, DASPL had relatively diversified its sales mix with wiring harness (42%), power-train (23%), technology centre (24%), advanced safety and user experience (7%) and aftermarket operations (4%). However, in December 2017, the company spun-off its power-train and after-market operations into a new entity, Delphi Propulsion Systems Private Limited (DPSPL). This was in line with the spin-off of the power-train division by its ultimate parent company, Delphi Automotive PLC, into Delphi Technologies PLC. The remaining entity was subsequently renamed as Aptiv PLC. At the parent level, the rationale for the transaction was to enhance its shareholder value with two different companies with focus on two separate technologies and business segments. Although the product diversification of DASPL is expected to decline, it will continue to have a fairly diversified product portfolio.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

As per the management, DASPL received a total consideration of approximately Rs. 120 crore for the sale of assets to the new entity, which has further increased the company's surplus cash balances. The transaction will become effective from December 01, 2017 and DASPL will book the revenues from the power-train and after-market division for eight months in its FY2018 financial statements. Although the transaction will bring significant cash on the company's balance sheet, it will also reduce the scale of operations and product diversification. The remaining entity will have three major divisions of electrical distribution systems (EDS), technology centre (TCI), and advanced safety and user experience (ASUX).

While DASPL's product diversification has been adversely impacted by the spin-off, ICRA believes that the risk is mitigated by its improving share of business with existing customers as well as addition of new customers, especially in the wiring harness business. Furthermore, the hived-off business had relatively lower margins vis-à-vis the company's remaining business. Accordingly, ICRA expects the profitability indicators to improve, going forward.

DASPL reported strong growth across all its divisions in H1 FY2018, which has helped it to improve its scale of operations as well as profitability indicators. The company's largest division, EDS, witnessed a growth of 47.3% in H1 FY2018 to Rs. 217 crore, driven by new business from Mahindra & Mahindra (M&M), Ford, Renault Nissan (RN), Tata Motors (TML), Volvo Eicher Commercial Vehicles (VECV) and Fiat Chrysler (FCA). The ASUX division, which manufactures products like immobilisers, navigation systems and audio systems, etc., also grew by 48% in H1 FY2018 to Rs. 37 crore, driven by growth in its existing business with MSIL for the Brezza model and new business from other original equipment manufacturers (OEMs) such as RN and FCA. The TCI division is a captive software design and development center for DASPL's parent company and it grew by 14.9% in H1 FY2018, driven by the increase in demand for embedded software systems by DASPL's parent and group companies.

Although the EDS division has grown significantly over the last two years, its scale of operations is significantly lower than the market leader in the wiring harness business for the domestic passenger vehicle (PV) industry, Motherson Sumi Systems Limited ([ICRA]AA(Positive)/A1+). Along with its joint venture, Kyungshin Industrial Motherson Limited, Motherson Sumi Systems Limited enjoys around 65% market share in the domestic PV industry and around 40% share of business in the domestic commercial vehicle (CV) industry. Given the company's significant reliance on the PV industry, its revenues will be sensitive to the performance of the domestic PV industry.

Outlook: Stable

ICRA believes DASPL will continue to grow at a healthy rate in the near term, supported by new business from existing clients and new customer addition. The outlook may be revised to Positive if it is able to gain significant market share in its business divisions. The outlook may be revised to Negative if the business profile weakens because of loss in market share or down-turn in the domestic PV industry.

Key rating drivers

Credit strengths

Strong business, technology and financial support from its ultimate parent company, Aptiv PLC - DASPL receives significant business and financial support from its ultimate parent company in the form of technical expertise and capital infusion.

Favourable debt profile with no term borrowings and negligible working capital debt - The company has a strong credit profile and has no term loans and neither has it utilised its working capital facilities since June 2015, because of limited capital expenditure requirements and improving cash flow generation leading to strong liquidity.

Diversified product portfolio comprising integrated wiring harnesses, body control modules, immobilisers, and audio systems, etc. - Although the product diversification of DASPL is expected to decline post the spin-off of DPSPL, it will continue to have a fairly diversified product portfolio via its presence in wiring harness, body control modules, infotainment systems and design and development of embedded software programs.

Business scale-up with organic growth of customers, presence in new product development and expansion of customer base - The company's scale improved significantly in H1 FY2018 because of new business from existing customers and acquisition of new customers. The company is also involved in designing low voltage wiring harness for some domestic PV OEMs.

Credit challenges

Significant foreign exchange risk due to high raw material import content - The company has high import content (62% in FY2017) and it imports parts, such as engine cables, fuses and clips. However, the foreign exchange risk is mitigated to an extent by pass-through clause with customers and currency hedging by its parent company on a quarterly basis.

High competition from both domestic and international players - DASPL faces significant competition from domestic and international players for its wiring harness as well as advanced safety and user experience products.

Spin-off of Delphi Propulsion Systems Private Limited will lead to reduction in scale and product diversification - The spin-off of its power-train and after-market operations into Delphi Propulsion Systems will reduce the company's scale of operations and product diversification.

High segment concentration on the PV sector - Majority of DASPL's sales (excluding sales from the technical centre) is generated by the domestic PV segment, which makes its sales susceptible to the performance of the domestic 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:

Delphi Automotive Systems Private Limited (DASPL) was incorporated in April 1995 as a wholly-owned subsidiary of Delphi Automotive PLC. The company has a well-diversified product portfolio as well as customer profile with sales to OEMs such as Mahindra and Mahindra (M&M), Tata Motors Limited (TML), General Motors India Private Limited (GM), and Maruti Suzuki India Limited (MSIL). The company operates through three major divisions—electrical distribution systems (EDS; wiring harness, which was 38% of FY2017 revenues), advanced safety and user experience (ASUX; 8% revenues) and the technology center (TCI; 28%), which is a captive software development centre that provides engineering services to Delphi entities globally. DASPL has four manufacturing facilities—two in Chennai, and one each in Dharuhera (Haryana) and Pune (Maharashtra). Majority of the models serviced by DASPL are passenger vehicles.

In December 2017, the company spun-off its power-train (21% revenues) and after-market (5%) divisions into a new company, Delphi Propulsion Systems Private Limited (DPSPL), in line with its global parent, Aptiv PLC (erstwhile Delphi Automotive PLC). DASPL received ~Rs. 120 crore for divestment of assets to DPSPL, on which it recorded a profit of approximately Rs. 30 crore. Till FY2016, the company also had a thermal and heating, ventilation and air conditioning (HVAC) division, which was sold to MAHLE-Behr for a consideration of Rs. 64 crore.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	748.2	814.7
PAT (Rs. crore)	24.9	69.8
OPBDIT/ OI (%)	6.4%	9.8%
RoCE (%)	10%	19%
Total Debt/ TNW (times)	0.6	0.4
Total Debt/ OPBDIT (times)	2.7	1.6
Interest coverage (times)	5.5	10.1
NWC/ OI (%)	17%	16%

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 O/s (Rs Crore)	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2015	
					Apr 2018	Feb 2017	Apr 2016	Feb 2015
1 CC/WCDL/LC /BG	Long Term & Short Term	40.00	NA	[ICRA]A (Stable)/ A1	[ICRA]A- (Stable)/A2+	[ICRA]BBB (Positive)/A2	[ICRA]BBB (Stable)/A2	

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	CC/WCDL/LC/BG	NA	NA	NA	40.00	[ICRA]A (Stable)/ A1

Source: Delphi Automotive Systems Private Limited

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