

Somic ZF Components Private Limited

September 20, 2018

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------------|-----------------------------------|----------------------------------|--|
| Short-Term Fund Based/Non-Fund Based | 31.75 | 31.75 | [ICRA]A1; reaffirmed |
| Long-Term/Short-Term- Fund Based | 5.00 | 5.00 | [ICRA]A (Stable)/ [ICRA]A1; reaffirmed |
| Long Term – Unallocated | 16.43 | 16.43 | [ICRA]A (Stable); reaffirmed |
| Total | 53.18 | 53.18 | |

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A)¹ and a short-term rating of [ICRA]A1 (pronounced ICRA A one) for the Rs. 53.18-crore² bank facilities of Somic ZF Components Private Limited (Somic ZF). The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation takes into account the stable operational profile of Somic ZF, with the company continuing to enjoy a strong share of business with its key customers Maruti Suzuki India Limited (MSIL), JTEKT India Limited (JTEKT) and Tata Motors Limited (TML) among others. The continued access to technical assistance from its JV partners supported by strong relations of the JV partners with global auto OEMs supports the company's healthy business prospects. ICRA also favourably factors in the healthy improvement in its operating margins in FY2018 benefitting from the enriched product mix as well as implementation of cost control measures by the management. The company continues to maintain a strong financial risk profile, characterised by a conservative capital structure and strong coverage indicators. Although it has planned a new plant at Gujarat that would entail capex during FY2019-2020, the same is expected to be funded through its internal accruals and available cash and liquid investments with the financial risk profile remaining comfortable going forward.

Somic ZF continues to remain exposed to significant segment and client concentration risk even as its scale of operations remains moderate. The risk is, however, partially mitigated by the company's strong share of business across models and the consistent business awards by these OEMs to Somic ZF over the years. Although, the management is focussed on expanding its revenues from the export market, the revenue growth is likely to be derived from the domestic market with export revenues likely to remain subdued.

Outlook: Stable

ICRA expects Somic ZF to continue to benefit from its strong position as a supplier of control arms and ball joints for steering system to MSIL, which is likely to aid the revenue growth prospects. Additionally, higher growth reported by models of other OEMs is likely to benefit the company in customer diversification besides improved revenue prospects

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

²100 lakh = 1 crore = 10 million

over medium term. The outlook may be revised to Positive if substantial improvement in revenue, profitability and customer diversification leads to significant improvement in its return indicators. The outlook may be revised to Negative if cash accruals are lower than expected, or if any major debt-funded capital expenditure or deterioration in working capital cycle weakens its financial and/or liquidity profile.

Key rating drivers

Credit strengths

Strong financial and technological support from parents – Somic ZF enjoys access to design and technology transfer support from its parent Somic and ZF, which has supported the award of new business from subsidiaries of global original equipment manufacturers (OEMs) operating/entering in India. Besides, the parents have also demonstrated financial support to the company, which is reflected in the guarantees given by the parents to obtain foreign currency term loans at a relatively lower borrowing cost.

Healthy financial risk profile and strong liquidity profile – The company's financial risk profile is characterised by a conservative capital structure evident from a gearing of 0.2 times as on March 31, 2018 and strong coverage indicators. Somic ZF reported a Total Debt/OPBITDA of 0.6 times, DSCR of 3.4 times and interest coverage of 37.4 times in FY2018. Additionally, it continues to have a strong liquidity profile with available liquid investments and cash balances of Rs. 30.6 crore as on March 31, 2018, also supported by financial flexibility in the form of unutilised working capital limits from banks.

Credit challenges

High segment concentration risk – The company faces high segment concentration risk with nearly all the revenues in FY2018 derived from the passenger vehicle (PV) segment. In line with the JV agreement, its business prospects are restricted to the PV segment, with supplies to commercial vehicle (CV) segment limited to small commercial vehicles (less than 2 tonne). However, favourable growth prospects for the PV industry mitigates the risk, to an extent, and provides revenue visibility in the near to medium term.

High client concentration risk, with major part of the revenues emanating from two customers – Although the company supplies to various reputed customers, it remains dependent primarily on two customers – MSIL and JTEKT (together constituted nearly 65% of its revenues in FY2018). The risk is, however, partially mitigated to an extent by its strong share of business for various product supplies and established long-term relationships with both the customers. Additionally, Somic ZF has a track record in getting incremental business from both the clients over the years. While its focus on diversifying its customer profile is likely to help to moderate the client concentration levels, the contribution in revenues from MSIL and JTEKT is likely to dominate in the near term.

Revenue growth prospects remain limited to domestic market – Over the years, the company's export revenues have remained muted, with nearly all the revenues are derived from domestic market. It is a JV of global automotive component suppliers, who have presence across various geographies through different JVs, which limits the interest of the parents in providing export business to Somic ZF. Although, the management is focussed on expanding its revenues from the export market, the revenue growth is likely to be derived from the domestic market with export revenues likely to remain subdued.

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:

Somic ZF was incorporated in 1995 as Sona Somic Components Limited (SSCL) as a joint venture between Sona Koyo Steering Systems Limited (SKSSL) and Somic Ishikawa Inc. (Somic), Japan. In 1998, ZF Lemforder Metallwaren AG (ZLM), Germany joined in as the third joint venture partner and the company became Sona Somic Lemforder Components Limited (SSL). In November 2010, Somic Engineering (Japan) also infused equity into the Group, leading to an increase in the stake of the Somic Group to 50% in the company. These tie-ups have expanded the footprint of the company as it can cater to both the Japanese as well as the non-Japanese customers in India.

In April 2012, Sona Group exited from the company, through selling the stake held by its Group company – Sona Investments Private Limited – to ZF India Private Limited (ZF Group Company). Consequently, the company was named as Somic ZF Components Limited and is at present held in the shareholding ratio of 50:50 by the Somic Group and the ZF Group. Further, in February 2015 the company's constitution has changed from a public limited to a private limited entity.

About the parent companies

Somic Ishikawa Inc, Japan (Somic): Established in 1916, Somic is involved in the design and manufacture of ball joint unit and damper for steering and suspension systems. Somic has six manufacturing facilities in Japan and nine foreign affiliations in the USA, France, China, India, Thailand and Indonesia. The company's major customers include Toyota Motor Corporation, Suzuki Motor Corporation, Isuzu Motors Limited, Honda Motor Company Limited and JTEKT Corporation among others.

ZF Friedrichshafen AG, Germany (ZF): ZF is a global leader in driveline and chassis technology as well as active and passive safety technology. The company acquired TRW Automotive (TRW) in May 2015 and integrated it within the organisational structure as the active and passive safety technology division. The combined company has a global workforce of around 1,46,000 at about 230 locations in 140 countries and reported sales of EUR 36.4 billion in 2017 and EUR 18.7 billion in H1 2018. ZF is rated Baa3, Stable by Moody's Investors Services.

Key financial indicators (audited)

| | FY2017 | FY2018 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 367.6 | 378.6 |
| PAT (Rs. crore) | 9.9 | 15.9 |
| OPBDIT/ OI (%) | 6.0% | 8.1% |
| RoCE (%) | 12.7% | 20.0% |
| | | |
| Total Debt/ TNW (times) | 0.2 | 0.2 |
| Total Debt/ OPBDITA (times) | 1.0 | 0.6 |
| Interest coverage (times) | 37.8 | 37.4 |

Status of non-cooperation with previous CRA: None

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 September 2018 | Date & Rating in FY2018 May 2017 | Date & Rating in FY2017 June 2016 | Date & Rating in FY2016 May 2015 |
| 1 Fund Based/Non-Fund Based | Short Term | 31.75 | NA | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A2+ |
| 2 Fund Based/Non-Fund Based | Short/ Long Term | 5.00 | NA | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A- (Stable)/ [ICRA]A2+ |
| 3 Unallocated | Long Term | 16.43 | NA | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A- (Stable) |

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 | Short-Term Fund Bases/Non-Fund Based | NA | NA | NA | 31.75 | [ICRA]A1 |
| NA | Long-Term/Short-Term-Fund Based | NA | NA | NA | 5.00 | [ICRA]A (Stable)/[ICRA]A1 |
| NA | Long Term – Unallocated | NA | NA | NA | 16.43 | [ICRA]A (Stable) |

Source: Somic ZF

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