

June 10, 2019

Aptiv Components India Private Limited: Ratings upgraded to [ICRA]A+(Stable)/A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
CC/WCDL/LC/BG	40.00	20.00	[ICRA]A+(Stable)/A1+; Upgraded from [ICRA]A(Stable)/A1
Total	40.00	20.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade takes into consideration the improvement in Aptiv Component India Private Limited's (ACIPL's) business profile over the past couple of years, driven by its improving share of business in the electrical distribution systems division (EDS; wiring harness business). ICRA notes that the addition of new customers and scale-up in capacity utilisation levels, along with cost reduction initiatives has supported a significant improvement in the company's earnings and cash flow generation. The assigned ratings continue to factor ACIPL's strong parentage as a wholly-owned subsidiary of Aptiv PLC (rated Baa2 Stable by Moody's), 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.

Over the past two to three years, the company's EDS division has reported strong revenue growth supported by new customer addition and healthy share of business in the models launched by its existing customers. As a result, the revenues from the EDS division grew by 26.5% in FY2019 to Rs. 610.4 crore from Rs. 482.7 crore in FY2018, despite a slowdown in the domestic passenger vehicle (PV) segment. The strong scale up in business has led to higher capacity utilisation levels and better absorption of overhead costs, resulting in significant improvement in the division's EBITDA margins. Till FY2018, the profitability indicators of ACIPL's EDS division were lower vis-à-vis its peers; however, its margins are now comparable to other wiring harness manufacturers. The company's EDS division continues to maintain a diversified customer portfolio and enjoys a healthy share of business with OEMs such as Mahindra & Mahindra (M&M), Ford, Renault Nissan (RN), Tata Motors (TML), Volvo Eicher Commercial Vehicles (VECV) and Fiat Chrysler (FCA). Besides developing wiring harness for conventional vehicles, ACIPL is also working with OEMs to design and manufacture wiring harness systems for electric vehicles.

The company's overall revenue growth was marginally pulled down, however, because of weak performance in its advanced safety and user experience (ASUX) division in FY2019, as indicated by a 10.3% decline in revenues to Rs. 78.6 crore from Rs. 87.6 crore in FY2018. The ASUX division manufactures components such as immobilisers, navigation systems, body control modules and infotainment systems for PVs. However, this division has not grown at a pace comparable to the EDS division because of fewer business orders and weak unit sales for the models in its portfolio. ACIPL is trying to develop a strategy to grow the ASUX division and is in advanced discussion with a few OEMs for securing new businesses.

ACIPL's business profile is characterised by high concentration on the domestic PV industry and its revenue growth will be sensitive to the underlying performance of the PV sector. However, this is mitigated partially by its presence in the technical centre business, which designs and develops software systems for Aptiv PLC and its other global subsidiaries. In FY2019, the technical centre reported revenues of Rs. 267.4 crore, contributing 28% to ACIPL's overall revenues.

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 (MSSL; [ICRA]AA+(Stable)/A1+). Along with its joint venture, Kyungshin Industrial Motherson Private Limited (KIML; [ICRA]AA(Stable)/A1+), Motherson Sumi Systems Limited enjoys leadership position in the domestic PV industry and healthy share of business in the domestic commercial vehicle (CV) industry. Besides MSSL and KIML, ACIPL faces competition from other domestic incumbents such as Minda Furukawa and Yazaki.

Outlook: Stable

ICRA expects ACIPL's revenue growth to decelerate in FY2020 because of the ongoing subdued demand for PVs in India, especially in H1 FY2020. However, ICRA expects the company to maintain its strong business position because of new business and customer addition. The outlook could be revised to Positive if ACIPL is able to further strengthen its position in the wiring harness segment and report significant improvement in the market share of the ASUX division. The outlook could be changed to Negative if the company's financial profile deteriorates significantly or if it loses market share in its addressable segment.

Key rating drivers

Credit strengths

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

Favourable credit profile with no term borrowings and negligible working capital debt - The company has a strong credit profile with no external borrowings¹ and unutilised working capital facilities since June 2015. This is supported by limited capital expenditure requirements and growth in revenues along with improvement in profitability indicators leading to better cash accruals.

Diversified product portfolio comprising integrated wiring harnesses, body control modules, immobilisers and audio systems, etc - Although the product diversification of ACIPL declined post the spin-off of its powertrain division in FY2018, it continues to have a well-diversified product portfolio via its presence in wiring harness, body control modules, infotainment systems and the design and development of embedded software programmes.

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 FY2019 because of new business from existing customers and acquisition of new customers. The company is also looking at designing wiring harness for upcoming electric vehicle models for some domestic PV OEMs.

Credit challenges

Significant foreign exchange risk due to high raw material import content - The company has high import content (48-49% in FY2019) and it also imports parts, such as engine cables, fuses and clips. However, the foreign exchange risk is mitigated to an extent by its pass-through clause with customers and the currency hedging undertaken by its parent company.

¹ The company has received financial support from its parent company in the form of non-cumulative optionally convertible redeemable preference shares and compulsorily convertible debentures.

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

High segment concentration on the PV sector - Most of ACIPL'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. ICRA expects the revenue growth to decelerate in FY2020 because of the ongoing subdued demand for PVs in India.

Liquidity position

ACIPL enjoys a strong liquidity profile supported by healthy cash flows, surplus cash balances (Rs. 205 crore as on March 31, 2019) and unutilised working capital limits. ICRA expects the company to maintain its liquidity profile, going forward, because of its expectation of improvement in scale of operations leading to higher cash generation and moderate capex plans.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Aptiv PLC (rated Baa2/Stable by Moody's) The ratings are based on implicit support from its parent company.
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company

Aptiv Components India Private Limited (erstwhile Delphi Automotive Systems Private Limited) was incorporated in April 1995 as a wholly-owned subsidiary of Aptiv PLC (erstwhile Delphi PLC). The company operates through three major divisions—electrical distribution systems (EDS; wiring harness which was 64% of its FY2019 revenues), advanced safety and user experience (ASUX; 8% revenues) and the technology centre (TCI; 28%), which is a captive software development centre that provides engineering services to Aptiv entities globally. The company has a well-diversified product portfolio as well as customer profile with sales to OEMs such as M&M, TML, Ford and Maruti Suzuki India Limited (MSIL). ACIPL has four manufacturing facilities—two in Chennai, and one each in Dharuhera (Haryana) and Pune (Maharashtra). ACIPL mainly services passenger vehicle models.

In December 2017, the company spun-off its power-train and after-market divisions into a new company, Delphi Propulsion Systems Private Limited (DPSPL), in line with its global parent, Aptiv PLC. The divestment of assets to DPSPL led to a one-time gain of Rs. 28.9 crore for the company in FY2018. Till FY2016, the company was also present in the thermal and heating, ventilation and air conditioning (HVAC) business, which was sold to MAHLE-Behr for a consideration of Rs. 64 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	810.8	1,027.7
PAT (Rs. crore)	42.4	87.3
OPBDIT/OI (%)	9.9%	12.5%
RoCE (%)	17.1%	29.3%
Total Debt/TNW (times)	0.2	0.1
Total Debt/OPBDIT (times)	0.7	0.5
Interest coverage (times)	11.3	18.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount O/s (Rs Crore)	Date & Rating Jun 2019	Date & Rating in FY2019		Date & Rating in FY2017	
					Apr 2018	Feb 2017	Apr 2016	
1 CC/WCDL/LC/BG	Long Term & Short Term	20.00	NA	[ICRA]A+ (Stable)/ A1+	[ICRA]A (Stable)/ A1	[ICRA]A- (Stable)/A2+	[ICRA]BBB (Positive)/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	20.00	[ICRA]A+(Stable)/A1+

Source: Aptiv Components India Private Limited

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