February 19, 2021

ZF Steering Gear (India) Limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	30.00	30.00	[ICRA]A+(Stable) reaffirmed; outlook revised to Stable from Negative
Long-term/Short-term non-fund based	20.00	20.00	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed; outlook revised to Stable from Negative
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook of ZF Steering Gear India Limited (ZF) to 'Stable' from 'Negative' reflects the sequential improvement in ZF's revenues and profit margins in Q3FY2021 and ICRA's expectation that the momentum would continue into the ensuing quarters, backed by improving demand in the domestic Medium and Heavy Commercial vehicles (M&HCV) segment. Despite revenue decline of 48% in 9mFY2021 due to the nation-wide lockdown and subsequent slow ramp up, ZF's credit profile remains strong in the absence of term loans, minimal utilization in working capital lines and adequate liquidity backed by liquid investments to the tune of Rs.115 crore as of December 31, 2021. The ratings reaffirmation continues to reflect ZFI's strong position in the domestic power steering segment, established relationship with domestic automobile OEMs and its healthy operating efficiencies. ICRA notes that Robert Bosch Automotive Steering GmbH (RBAS) which is amongst the largest steering system manufacturers globally, holds 25.89% stake in ZFI. With the manufacturing plant in Pithampur becoming operational, the company has partially offset asset concentration risks. The credit strengths are partially offset by ZFI's modest scale of operations, susceptibility to the inherent cyclicality in the domestic M&HCV and tractor industry and continuous need to upgrade technology in view of technology-intensive nature of products. The company does not have any major debt funded capital expenditure plans in the anvil, however risk of any inorganic growth plans cannot be ruled out and would be evaluated on a case to case basis.

Key rating drivers and their description

Credit strengths

Strong position in the domestic steering systems industry for HCV and tractors; established relationship with leading OEMs -The Indian steering gear market is primarily dominated by three major players viz JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited; rated [ICRA]AA/Stable/A1+), Rane TRW Steering Systems Private Limited (Rane; rated [ICRA]AA-/Stable/A1+) and ZFI. While JTEKT is primarily present in the passenger vehicle (PV) segment, ZFI and Rane Group are mainly present in the commercial vehicle and tractor segment. Overall, the domestic M&HCV and tractor steering system market is primarily duopolistic in nature with ZFI and Rane Group accounting for ~90% of the market share.

Comfortable capitalization and strong liquidity position - ZF is net debt free, and hence it has comfortable coverage indicators with Total Debt/ OPBDITA of 0.1 time and DSCR of 2.5 times as of March 31,2020. Liquidity position remain solid, which is supported by bank balances and investments to the tune of Rs 115 crore as on December 31, 2020. In absence of any major capex plans, the capital structure and liquidity position is likely to remain strong in the medium term.

Credit challenges

Susceptible to inherent cyclicality in the domestic CV and tractor segment; negligible presence in power steering segments of PV and tractor business- ZFI primarily supplies power steering systems for CVs and mechanical steering systems for tractors. The company has underperformed in the mechanical steering supplies for the tractor segment, as demand is gradually shifting towards power steering, where ZFI has a weak market position. Nevertheless, with pick-up in economic activity, ICRA expects M&HCV demand to pick up in FY2022 and thus result in health revenue growth for ZF.

Continuous need to upgrade technology to avoid obsolescence - Steering systems, being critical automobile components, are however subject to marginal changes in design during the transition between emission norms or change in fuel and, hence, requires frequent investments in technology to prevent obsolescence.

Liquidity position: Strong

The company has cash and liquid investments to the tune of Rs.115 crore as of December 31,2020. While net profits are likely to weaken significantly due to moderation in operating margin as well as high depreciation expense, it is expected to generate cash profits in FY2021. Given modest debt level, adequate buffer in working capital lines and adequate cash profits, company's liquidity position is likely to remain strong in the near to medium term.

Rating sensitivities

Positive factors – The ratings can be upgraded with significant improvement in scale and return indicators (RoCE) on a sustained basis, while maintaining current level of capitalization and liquidity position.

Negative factors – There could be downward pressure on rating if ZF's operating performance deteriorates leading to steady decline in profitability over the medium term. Dilution in promoter's stake in the entity due to stake sale or invocation of pledged shares is another key monitorable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on Standalone financial statements of ZFI

About the company

ZF Steering Gear (India) Limited was founded by the Munot family and ZF Lenkystene GmbH. Later, Robert Bosch Automotive Steering GmbH acquired ZF Lenkystene GmbH and renamed the company as Robert Bosch Automotive Steering GmbH. The company manufactures, assembles and deals in steering gears with an installed manufacturing capacity of 2.0 lakh mechanical steering gear units and 3.75 lakh hydraulic power steering gear units per annum. ZFI's manufacturing plant is at Vadu Budruk Village in the Tal Shirur district of Maharashtra.

The company's steering gears are used in buses and are supplied to various state transport undertakings as well as to heavy vehicles like dumper and haulage trucks. Buses fitted with power steering gears reduce the drivers' efforts in steering the vehicle and add to their safety. As on March 31, 2020, promoter group holds 67.39% stake in family wherein Munot family holds 41.5% stake in the company and RBAS holds 25.89% stake. Munot family has pledged their 16.53% stake in ZFI as on December 31, 2020.

Key financial indicators (audited)

LTHL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	439.4	286.6
PAT (Rs. crore)	(1.3)	(0.3)
OPBDIT/OI (%)	18%	12%
PAT/OI (%)	-0.3%	-0.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.1
Total Debt/OPBDIT (times)	0.6	0.1
Interest Coverage (times)	39.8	30.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31,2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020		Date & Rating in FY2019			Date & Rating in FY2017
					Feb 19,2021	Aug 03,2020	Oct 25,2019	June 10,2019	Feb 28,2019	Oct 30, 2018	Apr 05, 2018	Mar 03, 2017
1	Fund based limit	Long Term	30.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund based	Long/Short-term	20.00	-	[ICRA]A+(Stable)/ [ICRA]A1+	[ICRA]A+(Negative)/ [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 click here

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	Long-term Fund based Limit				30.00	[ICRA]A+(Stable)
NA	Long-term/ Short-term non-fund based				20.00	[ICRA]A+(Stable)/ [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

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