

April 15, 2021

JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	71.35	61.35	[ICRA]AA (Stable); Reaffirmed
Term Loans	44.91	114.14	[ICRA]AA (Stable); Reaffirmed
Short-term Non-Fund based	40.00	40.00	[ICRA]A1+; Reaffirmed
Short-term Fund Based	32.50	12.50	[ICRA]A1+; Reaffirmed
Long term/ Short-term-Fund based/Non-fund based	85.00	85.00	[ICRA]AA (Stable)/ [ICRA] A1+; Reaffirmed
Long-term Unallocated	30.00	1.77	[ICRA]AA (Stable); Reaffirmed
Short-term Unallocated	11.00	-	-
Total Bank Facilities	314.76	314.76	
Commercial Paper Programme	15.00	15.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in the position of JTEKT India Limited (JIL) as a leading supplier of steering systems to passenger vehicle (PV) Original Equipment Manufacturers (OEMs) in India as well as its healthy financial risk profile characterised by low leverage and healthy cash accruals. ICRA also continues to favourably factor in the strong business and technical support enjoyed by JIL from its parent company, JTEKT Corporation (JTEKT), Japan.

JIL enjoys a leading position in the steering system segment in India with a strong presence in manual steering gears (MSG), electronic power steering (EPS) and hydraulic power steering systems (HPS). Besides the steering systems division, the company also has a driveline division which manufactures axles assemblies, case differential and propellant shaft, resulting in a diversified product profile for the entity. JIL continues to maintain a healthy share of business with some of the leading PV OEMs in India, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra Limited (M&M), Honda Cars India Limited (HCIL) and Toyota Kirloskar Motor Private Limited (TKML), which provides healthy revenue visibility. The company is also investing in a new product, Constant Velocity Joints (CVJ), to expand its driveline division, which would support the company's revenue growth over the medium term, besides aiding in diversification of its product portfolio.

JIL receives marketing support and technical support from JTEKT, a leading manufacturer of steering systems and driveline products globally. In addition, its strong parentage lends the company healthy financial flexibility, via access to unsecured debt from Japanese banks (backed by corporate guarantee from the parent entity).

Although the company had reported a subdued performance in Q1 FY2021 because of the pandemic induced lockdown, its sales had recovered to a large extent in Q2 FY2021 and aided by pent up demand in the industry, it reported a strong quarter in Q3 FY2021 (revenues growing by 18.7% YoY). Further, the company's operating profit margin also recovered to 8.4% and 9.1% during Q2 FY2021 and Q3 FY2021, respectively, aided by recovery in sales and the management's cost control initiatives. Going forward, JIL's revenue growth is expected to remain broadly in line with the growth in the PV industry and the profit margins are expected to improve gradually over the medium term aided by the management's continuous efforts to control costs.

Although the credit metrics are expected to have deteriorated in FY2021 over FY2020 due to decline in profitability, it is likely to continue to remain at a comfortable level, supported by expectation of healthy cash accruals and a conservative capital structure. Going forward, the company has capex plans of Rs. 90-110 crore in FY2022, which will be partly funded by undrawn term loans of ~Rs. 87.5 crore. Nevertheless, given the healthy cash accruals, the company's net debt is expected to remain low. Accordingly, despite the debt-funded capex, the company's credit metrics and coverage indicators are expected to continue to remain healthy.

The ratings remain constrained by the competitive intensity in the steering system space and JIL's segment concentration risks. JIL's business profile is characterised by high concentration in the domestic PV industry and dependence on select OEMs. To mitigate its concentration in the PV segment, the company had developed an electric power steering module for off-road vehicles and tractors. Although this segment has reported healthy revenue growth in the past few years, it continues to be a negligible contributor to JIL's overall revenues.

The Stable outlook on the long-term rating reflects ICRA's belief that JIL will continue to maintain a strong credit profile, aided by strong technological support from its parent entity as well as JIL's dominant position in the supply of steering systems to the domestic PV industry.

Key rating drivers and their description

Credit strengths

Leading manufacturer of steering systems in India with strong share of business with PV OEMs - The company is a leading manufacturer of steering systems in the domestic market, with a high share of business (SoB) with several PV OEMs such as MSIL, M&M, HCIL and TKML. While the company enjoys an SoB of around 50-55% with the market leader, MSIL, for the products supplied, it enjoys an SoB of nearly 100% for supplies to TKML (benefitting from being a part of the Toyota Group).

Strong parentage provides business and technical support - JIL receives business and technical support from JTEKT, a leading manufacturer of steering systems and driveline products globally. In addition, its strong parentage also lends the company healthy financial flexibility, via access to unsecured debt from Japanese banks (backed by corporate guarantee from the parent entity).

Well diversified product offerings with presence in both PV and UV segment - The company has diverse product offerings, including CEPS, HPS, MSG, electric power steering modules and driveline products, and it caters to the PV as well as UV segments. JIL is also developing CVJs, which would help it expand its driveline division and diversify its business profile.

Healthy financial risk profile, characterised by low leverage and healthy cash accruals - JIL has a healthy financial risk profile, characterised by a conservative capital structure and strong debt coverage indicators. Its financial risk profile is expected to remain healthy over the medium term, supported by expectation of healthy cash accruals and moderate capital expenditure. Its financial risk profile is also supported by its strong liquidity position, characterised by availability of unutilised working capital limits and surplus cash and liquid balances (Rs. 16.8 crore as of September 30, 2020).

Credit challenges

High segment concentration risk, with PV sector driving 90-93% of sales, exposes JIL to demand vagaries of the domestic PV market - JIL generates 90-93% of its revenues from PV OEMs, which results in significant segment concentration risk and makes it susceptible to the cyclicity in the PV industry. Nevertheless, the company's favourable ownership pattern, coupled with the healthy SoB enjoyed with various OEMs mitigates the segment concentration risk to an extent.

Increasing competition in the steering systems market, especially in supplies to key customer, MSIL - JIL faces stiff competition from other steering system manufacturers, as a result of which it has lost business in a few key models in the past. Nevertheless, the company continues to maintain a strong SoB with various OEMs and has been able to gain business for

recent product launches of various OEMs. The company's access to technological know-how from its parent entity is expected to help it maintain its strong market position, going forward as well.

Liquidity position: Strong

Despite moderation in cash flow generation due to the adverse impact of the global pandemic, JIL's liquidity position is **strong** supported by availability of unutilised working capital limits (average unutilised limit of Rs. 94.7 crore against the drawing power during the 12-month period that ended in February 2021) and surplus cash and liquid balances (Rs. 16.8 crore as on September 30, 2020). In addition, the parentage of JTEKT provides the entity with strong financial flexibility and gives it access to unsecured sanctions from Japanese banks at competitive interest rates. Against the aforementioned liquidity, the company has minimal debt repayments of ~Rs. 11 crore and capex plans of Rs. 90-110 crore in FY2022 (it has access to undrawn term loans of ~Rs. 87.5 crore for funding the capex). Going forward, it is expected to largely meet its capex requirements and debt obligations from internal accruals and yet be left with healthy cash surpluses.

Rating sensitivities

Positive factors – A sustained diversification of the company's segmental, product or customer mix would be favourably considered for an upgrade. Significant improvement in the company's operating metrics and debt coverage indicators on a sustained basis would also augur well for a rating upgrade.

Negative factors – The ratings may be revised downwards in case of significant deterioration in the profitability and credit metrics of the company on account of weakness in demand across the domestic automotive industry or due to any large, debt-funded capex, which impacts its credit profile adversely. In addition, any weakening of the business linkages with the parent company could also trigger a negative rating action. Specific credit metrics that could result in a downgrade include Net debt/OPBDITA above 1.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the issuer. As on March 31, 2020, the company had one subsidiary, which is enlisted in Annexure-2.

About the company

JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited) is a leading manufacturer of steering systems and driveline products for PV OEMs in India. The company commands a market leadership position in the steering system segment in India with a strong share of business with OEMs such as MSIL, M&M, HCIL, TKML and TML. JIL is a domestic focused auto component manufacturer who generates 90-93% of its revenues from PV OEMs.

The company manufactures the entire range of steering systems and driveline products. Its key manufactured components include manual as well as power steering systems, which comprise steering gears and columns. Its driveline product portfolio includes case differentials, axle components, rear axle assemblies and propeller shafts. JIL supplies these products to various PV OEMs. Its manufacturing facilities are in Gurgaon (Haryana), Dharuhera (Haryana), Chennai and Sanand (Gujarat).

The entity was incorporated in 1984 by the Sona Group, in a technical and financial collaboration with JTEKT Corporation, Japan. In Q4 FY2017, JIL's technology partner, JTEKT, bought out 25.12% stake from its exiting Indian partner, Sona Autocomp

Holding Limited, and increased its shareholding in the company to 45.4% from 20.1%. It acquired a further 25% stake in JIL via a public open offer in Q1 FY2018. At present, JTEKT's stake in the company stands at 69.36%.

The company amalgamated its subsidiary, JTEKT Sona Automotive India, with effect from Q4 FY2019. This amalgamation has helped in streamlining its manufacturing operations, reducing overall production turnaround time and providing a unified interface to customers, including access to an entire steering assembly offering from a single source, besides improving efficiencies and reducing costs.

Key financial indicators (audited)

JIL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	1,754.0	1,510.5
PAT (Rs. crore)	78.3	35.1
OPBDIT/OI (%)	12.6%	9.2%
PAT/OI (%)	4.5%	2.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.4
Total Debt/OPBDIT (times)	0.9	0.6
Interest Coverage (times)	14.3	14.0

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

Source: Company, ICRA Research

Note: Amount in Rs. crore; All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020*		Date & Rating in FY2019	
					Apr 15, 2021	May 14, 2020	Jun 06, 2019	Jun 03, 2019	Apr 16, 2018	
1	Cash Credit	Long Term	61.35	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2	Term Loans	Long Term	114.14	33.53	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
3	Short-term Non-Fund based	Short Term	40.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Short-term Fund Based	Short Term	12.50	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5	Long term/Short-term Fund based/Non-fund based	Long and Short Term	85.00	NA	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA (Stable)/ [ICRA] A1+	-	-	-	
6	Commercial Paper	Short Term	15.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
7	Long-term Unallocated	Long Term	1.77	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
8	Short-term Unallocated	Short Term	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
9	Short-term Fund based/Non-fund based	Short Term	-	-	-	-	[ICRA]A1+	-	-	

*An update on reason for delay in periodic surveillance was published on April 29, 2019

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	Term Loan 1	FY2017	NA	FY2023	11.08	[ICRA]AA(Stable)
NA	Term Loan 2	FY2016	NA	June 2021	0.06	[ICRA]AA(Stable)
NA	Term Loan 3	FY2017	NA	Sep 2022	3.00	[ICRA]AA(Stable)
NA	Term Loan 4	FY2021	NA	FY2027	50.00	[ICRA]AA(Stable)
NA	Term Loan 5	FY2021	NA	FY2027	50.00	[ICRA]AA(Stable)
NA	Cash Credit Limits	NA	NA	NA	61.35	[ICRA]AA(Stable)
NA	Short-term fund-based limits	NA	NA	NA	12.50	[ICRA]A1+
NA	Short-term non-fund based limits	NA	NA	NA	40.00	[ICRA]A1+
NA	Commercial Paper	Yet to be placed			15.00	[ICRA]A1+
NA	Long-term/ Short-term- fund based/ non-fund based	NA	NA	NA	85.00	[ICRA]AA (Stable)/ [ICRA] A1+
NA	Long-term Unallocated Limits	NA	NA	NA	1.77	[ICRA]AA (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	JIL Ownership	Consolidation Approach
JTEKT India Limited	Rated entity	Full Consolidation
JTEKT Fuji Kiko Automotive India Limited	51.00%	Full consolidation

Source: JIL annual report FY2020

Note: ICRA has taken a consolidated view of the parent (JIL) and its subsidiary while assigning the ratings.

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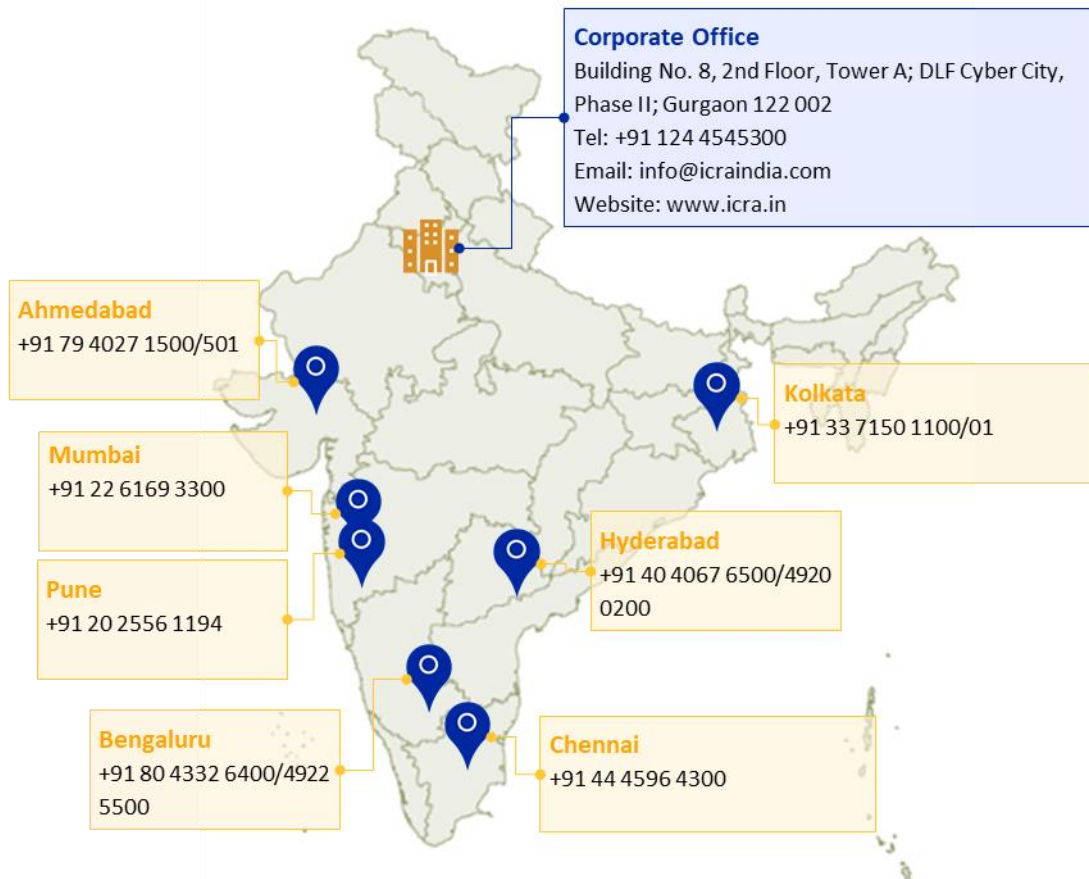
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