

April 22, 2022

## JTEKT India Limited: Ratings reaffirmed; rating withdrawn for CP Programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	61.35	53.35	[ICRA]AA (Stable); Reaffirmed
Term Loans	114.14	107.26	[ICRA]AA (Stable); Reaffirmed
Non Fund-Based Facilities	40.00	30.00	[ICRA]A1+; Reaffirmed
Fund Based Limits	12.50	12.50	[ICRA]A1+; Reaffirmed
Fund/Non Fund-based Limits	85.00	85.00	[ICRA]AA (Stable)/ [ICRA] A1+; Reaffirmed
Unallocated Limits	1.77	26.65	[ICRA]AA (Stable); Reaffirmed
<b>Total Bank Facilities</b>	<b>314.76</b>	<b>314.76</b>	
<b>Commercial Paper Programme</b>	<b>15.00</b>	<b>15.00</b>	[ICRA]A1+; Reaffirmed and withdrawn

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of ratings factors in JTEKT India Limited's (JIL) leading position as a supplier of steering systems to passenger vehicle (PV) Original Equipment Manufacturers (OEMs) in India, its healthy financial risk profile characterised by low leverage and healthy cash accruals as well as operational and technical support enjoyed by it 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 has a driveline division for manufacturing axle assemblies, case differentials and propellant shafts, resulting in a diversified product profile for the entity. The company has also developed a new product, Constant Velocity Joints (CVJ), to expand its driveline division, which would support its revenue growth over the medium term, besides aiding in further diversification of its product portfolio. JIL continues to maintain a healthy share of business (SoB) with some of the leading PV OEMs in India, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra Limited (M&M), Honda Cars India Limited (HCL) and Toyota Kirloskar Motor Private Limited (TKML), which provides healthy revenue visibility.

The ratings continue to factor in the marketing support and technical support received by JIL from JTEKT, a leading global manufacturer of steering systems and driveline products. In addition, its strong parentage lends the company healthy financial flexibility, in terms of access to unsecured debt from Japanese banks (backed by corporate guarantee from the parent entity).

ICRA notes that despite the impact of the second pandemic wave in May 2022 and semiconductor chip shortages during the year, the company reported a healthy revenue growth of ~29.7% to Rs. 1,118.8 crore in 9M FY2022, aided by a low base and pick up in demand. Although its operating profit margin has been impacted by the raw material price hardening and other inflationary pressures over the past few quarters, it continues to remain comfortable aided by the management's cost control initiatives over the past two years.

JIL continues to maintain a healthy financial risk profile, aided by healthy cash accruals, low debt repayments and moderate capex plans. JIL incurred a capex of ~Rs. 120 crore during FY2022, which primarily included capex for setting up manufacturing

lines for its new product, CVJ. Even though the company had access to ~Rs. 100 crore term loans from Japanese banks, it funded most of its capex through internal accruals. Going forward, although JIL has capex plans of Rs. 65-70 crore in FY2023, its reliance on debt is expected to continue to remain low, aided by its healthy cash accruals and surplus cash and liquid balances. Accordingly, the company's credit metrics and debt 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. Going forward, JIL's revenue growth is expected to remain broadly in line with the growth in the PV industry, while being supported by incremental revenues from the CVJ business.

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.

The rating outstanding on the Rs. 15.00 crore commercial paper (CP) programme have been reaffirmed and withdrawn at the request of the company, as there are no obligations outstanding against the rated instrument. This is in line with ICRA's policy on withdrawal and suspension of credit ratings.

## Key rating drivers and their description

### Credit strengths

**Leading manufacturer of steering systems in India with strong SoB with PV OEMs** - The company is a leading manufacturer of steering systems in the domestic market, with a high SoB with several PV OEMs such as MSIL, M&M, HCIL and TKML. While the company enjoys a 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 technical support and aids JIL in securing business from Japanese OEMs in India**- 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, in the form of 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 segments** - The company has diverse product offerings, including CEPS, HPS, MSG and driveline products, and its caters to PVs as well as UVs. JIL has also developed 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, undrawn term loans and surplus cash and liquid balances (Rs. 43.9 crore as of December 31, 2021).

### Credit challenges

**High segment concentration risk with PV sector driving 95% of sales exposes JIL to demand vagaries of domestic PV market** - JIL generates ~95% of its revenues from PV OEMs, which results in significant segment concentration risk and makes it susceptible to the cyclical nature 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, because 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

JIL's liquidity position is **strong** supported by healthy cash flow generation, availability of unutilised working capital limits (average unutilised limit of Rs. 120.7 crore against the drawing power during the 12-month period that ended in January 2022), access to undrawn term loans of ~Rs. 50 crore as of March 2022 and surplus cash and liquid balances (Rs. 43.9 crore as on December 31, 2021). 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 position, the company has minimal debt repayments of ~Rs. 17 crore and capex plans of Rs. 65-70 crore in FY2023. 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 return indicators 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. Any weakening of the technical and operational linkages with the parent company could also trigger a negative rating action. Specific credit metrics that could result in downgrade include Net debt/ OPBDITA above 1.0x on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the issuer. As on March 31, 2022, the company had a subsidiary, which is enlisted in Annexure-2.

## About the company

JIL (erstwhile Sona Koyo Steering Systems Limited) is a leading manufacturer of steering systems and driveline products for passenger vehicle OEMs in India. The company commands market leadership position in the steering system segment in India with strong SoB with OEMs including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra (M&M), Honda Cars India Limited (HCIL), Toyota Kirloskar Motor Private Limited (TKML) and Tata Motors Limited (TML). JIL is a domestic-focused auto component manufacturer and generates ~95% of its revenues from PV OEMs.

The company manufactures the entire range of steering systems and driveline products. The key manufactured components include manual as well as power steering systems, which comprise steering gears and columns. The driveline product portfolio includes case differentials, axle components, rear axle assemblies, propeller shafts and constant velocity joints (CVJ), new

product). JIL supplies these products to various passenger vehicle OEMs. The company's manufacturing facilities are located at Gurgaon (Haryana), Dharuhera (Haryana) and Chennai.

The entity was incorporated in 1984 by 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%.

### Key financial indicators (audited)

JIL Consolidated	FY2021	FY2021	9M FY2022*
Operating Income (Rs. crore)	1,510.5	1,333.0	1,118.8
PAT (Rs. crore)	35.1	13.7	25.6
OPBDIT/OI (%)	9.2%	7.7%	7.6%
PAT/OI (%)	2.3%	1.0%	2.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5	
Total Debt/OPBDIT (times)	0.6	0.5	0.3
Interest Coverage (times)	14.0	21.7	33.8

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

Source: Company, ICRA Research; \*Provisional numbers. 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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in	
					Apr 22, 2022	Apr 15, 2021	May 14, 2020	Jun 06, 2019	Jun 03, 2019
1	Cash Credit	Long-term	53.35	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Term Loans	Long-term	107.26	51.8	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non Fund-Based Facilities	Short-term	30.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund Based Limits	Short-term	12.50	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fund/Non Fund-based Limits	Long-term and short term	85.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	-

6	Unallocated Limits	Long-term	26.65	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
7	Commercial Paper Programme	Short-term	15.00	0.00	[ICRA]A1+ (withdrawn)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	Unallocated Limits	Short-term	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Fund/Non Fund-based Limits	Short-term	-	-	-	-	-	[ICRA]A1+	-

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

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Non Fund-Based Facilities	Very Simple
Fund Based Limits	Simple
Fund/Non Fund-based Limits	Simple
Unallocated Limits	Not applicable
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	53.35	[ICRA]AA (Stable)
NA	Term Loans 1	FY2017	NA	Sep 2022	1.50	[ICRA]AA (Stable)
NA	Term Loans 2	FY2017	NA	Dec 2022	6.63	[ICRA]AA (Stable)
NA	Term Loans 3	FY2021	NA	Dec 2025	49.13	[ICRA]AA (Stable)
NA	Term Loans 4	FY2021	NA	Sep 2026	50.00	[ICRA]AA (Stable)
NA	Non Fund-Based Facilities	NA	NA	NA	30.00	[ICRA]A1+
NA	Fund Based Limits	NA	NA	NA	12.50	[ICRA]A1+
NA	Fund/Non Fund-based Limits	NA	NA	NA	85.00	[ICRA]AA (Stable)/ [ICRA] A1+
NA	Unallocated Limits	NA	NA	NA	26.65	[ICRA]AA (Stable)
NA	CP Programme*	NA	NA	NA	15.00	[ICRA]A1+; withdrawn

Source: Company; \*Not placed

### 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: Company data

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

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