January 23, 2024

Automotive Axles Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	12.50	10.00	[ICRA]AA-(Stable); reaffirmed
Long-term/ Short-term – Fund-based/ Non-fund Based Limits	132.50	190.00	[ICRA]AA-(Stable)/ [ICRA]A1+; reaffirmed/ assigned for enhanced amount
Total	**145.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in the improvement in Automotive Axles Limited's (AAL's) operational performance in FY2023 and H1 FY2024, and expectations that the strong performance will continue in the medium term. In line with the pick-up in demand in the domestic commercial vehicle (CV) industry, AAL reported YoY growth of 56% and 15% in revenues during FY2023 and H1 FY2024, respectively. The operating profitability also improved to 11.1% in FY2023 and 11.2% in H1 FY2024 from 7.5% in FY2021 and 9.2% in FY2022 as a result of operating leverage benefits and softening in commodity prices. The ratings also favourably factor in AAL's comfortable financial risk profile and robust balance sheet as evidenced by its sizeable net worth, low debt levels, and strong liquidity position.

The ratings continue to factor in the company's established position as one of the largest independent axle manufacturers in India, catering to several large medium and heavy commercial vehicle (M&HCV) original equipment manufacturers (OEMs), namely Ashok Leyland Limited (ALL), Daimler India Commercial Vehicles Private Limited (Daimler), Mahindra & Mahindra Limited (M&M), Tata Motors Limited (TML), VE Commercial Vehicles Limited (VECV), Caterpillar India Private Limited (CAT), Vehicle Factory Jabalpur (VFJ), and Swaraj Mazda Limited (SML). The company enjoys healthy relationships with its established client base and a strong share of business with most of the major OEMs in the M&HCV industry. Further, the company benefits in terms of technology and operational support provided by its parent, Meritor Inc. ICRA expects operational synergies to accrue to AAL as a step-down subsidiary of one of the major global auto-component suppliers.

The rating strengths are partially offset by the customer concentration risk with AAL's top customer, ALL, driving 50-60% of its total revenues. The rating also considers the inherent cyclicality in the M&HCV industry. However, ICRA notes the company's efforts to diversify its revenue streams by scaling up its presence in other segments such as defence and off-highway applications, which are expected to yield benefits over the medium to long-term. Further, the company is exposed to the susceptibility of profitability to fluctuations in prices of key raw materials, although it is expected to pass on the impact of the same to its customers with some lag.

The Stable outlook on the long-term reflects ICRA's opinion that the company will continue to benefit from its strong parentage and the established track record of its operations and maintain its comfortable financial risk profile over the medium term.

Key rating drivers and their description

Credit strengths

Healthy financial profile characterised by low debt, healthy net worth base, comfortable credit metrics and sizeable cash balances – AAL's financial profile is healthy, supported by a healthy net worth base of Rs. 793.4 crore (as on September 30, 2023), healthy cash flows and low debt levels. The company's liquidity position is strong with a balance of cash and liquid investments of Rs. 215.9 crore (as on September 30, 2023). Additionally, the company has unutilised working capital limits of ~Rs. 115 crore, as on the same date. Given the low debt levels, AAL enjoys a strong capital structure with low leveraging, and comfortable coverage indicators such as interest coverage of 107.4 times and DSCR of 23.8 times (as on September 30, 2023). The company's credit metrics are expected to remain comfortable, going forward, on the back of expected healthy cash accruals and absence of any significant debt-funded capex.

Technological and operational support by virtue of its parentage – AAL is a 35.52% each joint venture (JV) between BFIL and Meritor Inc., a leading global supplier of drivetrain, mobility, braking and aftermarket solutions for the CV and industrial markets. Access to know-how from the global parent provides the company with technological leadership in India. Further, with the acquisition of Meritor by Cummins Inc. globally, the same enhances AAL's access to Cummins' technological prowess and well-established relationships with global OEMs. Accordingly, the change in ultimate parentage is expected to bring in operational synergies for AAL in terms of the new product segments, customers and geographies by leveraging Cummins' standing in the automobile industry.

Strong position in axle and brake manufacturing industry, coupled with established relationships with major OEMs, continues to support business prospects – The company is the largest independent manufacturer of rear drive axles for M&HCVs in India with an established position among domestic OEMs. The company has a strong customer base in the domestic market, catering to all the major OEMs in the Indian CV industry, namely ALL, TML, M&M and VECV, among others. This has supported AAL's business prospects over the years. The company supplies drive axles, TAG axles and brakes to these customers. Additionally, it supplies suspensions to ALL. AAL also supplies axles to CAT for its various construction equipment.

Credit challenges

Customer concentration risk – The company has high dependence on ALL, which has accounted for 50-60% of its revenues historically. However, the healthy share of business and its long-term association with ALL provide comfort. Further, the increasing share of business with other OEMs like M&M, TML and VECV, along with AAL's foray into the defence sector and plans to increase its presence in the off-highway segment, is expected to reduce the concentration, going forward.

Exposed to cyclicality inherent in M&HCV industry – AAL derives most of its revenues from CVs, especially the M&HCV segment, exposing its revenues to cyclicality in demand in these segments. However, the company is taking steps to mitigate this risk by increasing its presence in other segments, such as defence and off-highway applications.

Susceptibility to fluctuations in steel prices – The company's margins are susceptible to volatility in steel prices, though the same is generally passed on to its customers with a lag.

Liquidity position: Strong

AAL's liquidity is strong with healthy cash flow from operations, sizeable cash balances of Rs. 215.9 crore (as on September 30, 2023). With the healthy cash flow generation from operations of ~Rs. 150-180 crore in FY2024, AAL's dependence on working capital borrowings has been limited, resulting in further buffer of ~Rs. 115.0 crore from unutilised working capital lines (as on September 30, 2023). In case of outstanding long-term debt, AAL has debt repayments of Rs. 4.0 crore annually in FY2024 and FY2025, which can be comfortably met from its existing sources of funds, resulting in a strong liquidity profile.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to strengthen its business profile further through meaningful diversification of its customer base and products, which would aid the company to reduce its exposure to cyclicality on a sustained basis. The company's ability to maintain its profitability and return indicators at healthy levels over industry cycles would also remain critical.

Negative factors – Pressure on AAL's ratings could arise in case of sustained de-growth in revenues on account of the slowdown in industry demand or if deterioration in profit margins affects the debt coverage indicators on a sustained basis. Specific credit metrics that could lead to a rating downgrade include Total Debt/OPBITDA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of AAL.

About the company

Incorporated in 1981, Automotive Axles Limited is a joint venture between BF Investment Limited, an investment holding company with investments in various Kalyani Group companies, and Meritor Inc., USA, a leading supplier of axles for CVs, with the JV partners holding 35.52% stake each. In February 2022, Cummins Inc. (rated Moody's A2) acquired 100% stake in Meritor, making AAL an indirect JV of Cummins Inc. The purchase consideration for the transaction was $3.7 billion.

AAL is currently the largest independent manufacturer of rear drive axle assemblies for CVs (primarily M&HCVs) in India. Its product portfolio includes a wide range of axles catering to haulage trucks, tippers, tractor trailers and other off highway vehicles used for special purposes. The company also supplies drum and disc brake assemblies for trucks, trailers, buses and coaches; and is the second largest brake manufacturer in India after Brakes India Private Limited. With manufacturing plants at Mysore (Karnataka), Pantnagar (Uttrakhand), Jamshedpur (Jharkhand) and Hosur (Tamil Nadu), the company supplies its components to customers across India as well as in overseas markets. AAL's domestic customers include Ashok Leyland Limited, Daimler India Commercial Vehicles Private Limited, Man Trucks India Private Limited, Mahindra & Mahindra Limited, Tata Motors Limited, etc, while internationally its business is largely routed through the parent company.

Key financial indicators (audited)

AAL (Standalone)	FY2022	FY2023	H1 FY2024*
Operating income	1,490.6	2,323.7	1,116.3
PAT	74.4	162.0	82.9
OPBDIT/OI	9.2%	11.1%	11.2%
PAT/OI	5.0%	7.0%	7.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.5	0.4
Total debt/OPBDIT (times)	0.6	0.3	0.3
Interest coverage (times)	55.4	88.8	107.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 23, 2024	May 26, 2023	Mar 03, 2023	Feb 28, 2022 Oct 20, 2022	Dec 29, 2020
1	Term Loan	Long-term	10.00	8.33	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund based	Long-term	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-Fund based	Short-term	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+
4	Fund based/ Non-fund-based limits	Long-term/ short-term	190.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-
5	Unallocated	Long-term	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund based – Term Loan	Simple
Long-term/ Short-term – Fund based/ Non-fund Based Limits	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2019	9.42%	FY2026	10.00	[ICRA]AA-(Stable)
NA	Fund based/Non-fund-based limits	NA	NA	NA	190.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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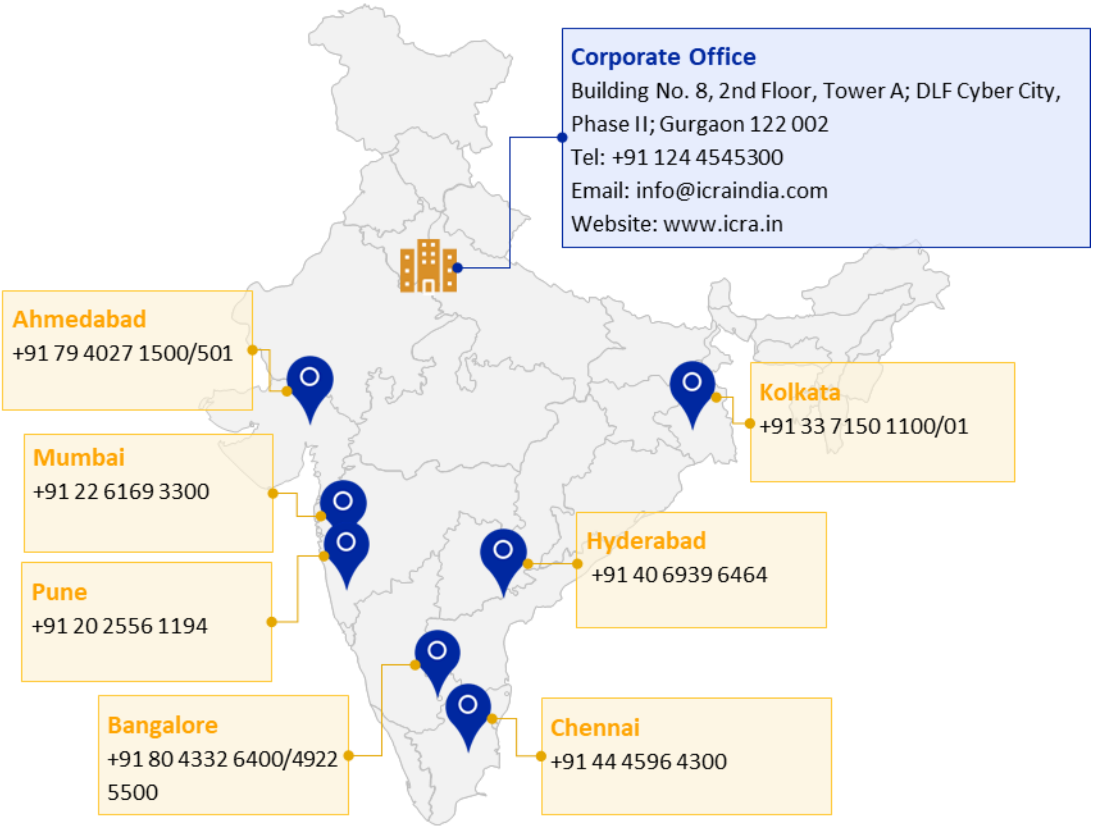

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