September 17, 2019

Jamna Auto Industries Limited: Change of limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	85.00	0.00	-
Long-term/Short-term: Fund based/Non-fund Based	295.00	390.00	[ICRA]AA- (Stable)/ [ICRA]A1+ outstanding
Long-term: Fund based/Non-fund Based	130.00	130.00	[ICRA]AA- (Stable) outstanding
Long-term/Short-term: Unallocated	20.00	10.00	[ICRA]AA- (Stable)/ [ICRA]A1+ outstanding
Total BLR	**530.00**	**530.00**	
Commercial Paper (CP)#	**270.00**	**270.00**	[ICRA]A1+ outstanding

**Instrument details are provided in Annexure-1*

 # Carved out of existing working-capital limits

Rationale

The ratings factor in expected moderation in profitability and coverage metrics of Jamna Auto Industries Limited (JAI) in the near term following a sharp deterioration of demand prospects for commercial vehicles, the key customer segment for the company. Pursuant to change in axle load norms in August 2018, the demand for heavy commercial vehicles (HCVs) moderated in H2 FY2019. The weakness in demand further got exacerbated during the current fiscal as anaemic industrial activity as well as a slower pace of infrastructure creation kept the demand for goods transportation subdued, which, coupled with liquidity constraints faced by NBFCs, resulted in a sharp de-growth in CV sales during April-July 2019. Weakness in HCV demand not only resulted in de-growth in sales to original equipment manufacturers (OEMs), JAI's aftermarket sales also de-grew in Q1 FY2020 as transport operators reduced or downtraded leafspring purchases, resulting in a sharp 25% de-growth in the company's net sales.

Even as the management adopted various cost control measures, the negative operating leverage weighed on the company's profitability metrics with contraction in operating and net margin during Q1 FY2020. Decline in cash accruals and elongation in receivable cycle in turn resulted in higher working capital intensity for the company reflected in higher levels of utilisation of bank limits in the past few months. With weakness in CV sales continuing to have a significant bearing on JAI's financial performance notwithstanding the management putting on hold all major capacity expansion plans , ICRA expects profits and cash accruals for the company to tone down sharply during the fiscal, thereby moderating the financial profile, even as the company would continue to maintain a healthy capital structure. While the management had relied on a significant increase in the letter of credit (LC) backed raw material sourcing during Q4 FY2019, which resulted in a below average current ratio at the end of the fiscal as well as refinancing risk, the same was corrected to an extent during Q1 FY2020, supported partly by infusion on term loans. Even as the management guided the infusion of long-term funds while limiting the use of LC-backed sourcing to improve the current ratio, ICRA would continue to monitor the company's raw material funding mix and the same would remain a key rating sensitivity.

ICRA continues to favourably factor in the management's initiatives towards shifting the product mix towards value accretive products such as parabolic springs and lift axles, strengthening the distribution network as well as IT systems for after-market sales, expanding its product offerings (through trading) for aftermarket by adding allied products (U bolts, stabiliser bars, among others) as well as realigning production capacities to cater to exports demand. The ratings assigned also take into consideration JAI's leadership position in the domestic leaf and parabolic spring market as well as its edge over competition aided by scale, competitive pricing and strategic proximity to its customers across India. The conservative capital structure, in line with the management's guidance of funding capital expenditure from internal accruals also supports the ratings.

Going forward, ICRA expects the company's profits and cash accruals to expand gradually in FY2021 in line with the recovery in demand for CVs after a sharp correction in volumes in FY2020. Notwithstanding the management's efforts to maximise operational efficiency through careful scheduling of production and minimising costs, the company's profitability indicators are likely to decline in the current fiscal with some improvement in FY2021, if there is meaningful recovery in CV volumes.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that JAI will continue to benefit from its established relations with major OEMs, its leadership position in the domestic leaf and parabolic spring market and a comfortable credit profile.

Key rating drivers and their description

Credit strengths

Strong business position with CV OEMs – JAI is the market leader in the domestic M&HCV OEM market for leaf springs with a dominant share of its business with Tata Motors Limited (TML) and Ashok Leyland Limited (ALL), which comprise more than 80% of the M&HCV production volume in India. The company continues to strengthen its relations with the OEMs evident from increased share of business over the years, with JAI's market share increasing to 71% during Q1 FY2020 even as CV volumes declined. Moreover, with increasing contribution from higher realisation products like parabolic springs and lift axles, JAI has been able to increase its content per vehicle over the years.

Favourable shift in sales mix towards increasing proportion of higher value-accretive products – Over the recent years, the company has witnessed growth in revenue contribution from higher-value accretive products such as parabolic springs and lift axle. The contribution of parabolic springs to JAI's sales revenue has improved gradually to nearly 28% in Q1 FY2020 from 9% in FY2011. Lift axle, which was launched in FY2014, contributed 6% to JAI's sales revenues during Q1 FY2020 despite the decline in revenues from the same post changes in axle load norms in August 2018. The shift in product mix has been critical over the years in substantially bringing down the break-even sales volume for the company, allowing it to withstand cyclicality in the domestic CV industry.

Strategic proximity to OEM customers provides competitive advantage – JAI's plants are spread across nine locations in India, in close proximity to all its customers. In comparison, its close competitors have a limited presence in terms of geographical footprint as well as capacity, which is also reflected by JAI's dominant market position. This has helped JAI to continue its position as India's largest spring manufacturer, which has enabled it to maintain healthy operating margins owing to a competitive cost structure through scale economies despite the commoditised nature of leaf spring, which is the company's key product.

Comfortable credit profile reflected in healthy profitability and coverage metrics – JAI continues to maintain a comfortable credit profile evident from healthy coverage indicators and capital structure, with interest coverage of 10.1 times and TOL/TNW of 1.1 times as on March 31, 2019. Even though the coverage is likely to deteriorate in FY2020 on account of a decline in operating profits, the overall credit profile of the company is expected to remain comfortable as the management has put all the major investment plans on hold.

Credit challenges

High dependence on CV segment exposes JAI to cyclicality associated with the industry – JAI has significant dependence on the domestic M&HCV segment, which exposes it to the inherent cyclicality of the industry. This impact was visible during Q1 FY2020 whereby the CV industry declined by 14% while JAI's operating profits de-grew by 39%. Despite the management's initiatives to develop a widespread network for the after-market segment, the company's ability to scale up its after-market supplies to the level that can offset any sharp decline in CV OEM volumes in case of any downturn is yet to be demonstrated.

High client and product concentration: ICRA notes that TML and ALL are JAI's major customers, together generating ~70% of its sales revenue in FY2019 with VE Commercial Vehicles Limited and Daimler India Commercial Vehicles being the other OEMs being catered by the company. Even as the company has high client concentration risk, the same is partly mitigated by the strong market position of these OEMs and JAI's healthy share of business with them as well as management's ability to increase content per vehicle with its key OEM customers. Even as the management has scaled up supplies of relatively high value added parabolic springs and lift axles over the past five years, JAI's revenues have primarily been derived from leaf springs, which has resulted in high product concentration risk.

Elongation of receivable days has led to greater working capital requirement – While the management had relied on a significant increase in letter of credit (LC) backed raw material sourcing during Q4 FY2019 which had resulted in a limited drawing power and below average current ratio at the end of the fiscal, the same was corrected to an extent during Q1 FY2020 supported partly by infusion on term loans. However, an elongation of receivable days, coupled with the need to maintain inventory and moderation in cash accruals led to high utilisation of fund-based limits as percentage of drawing power in the past few months.

Liquidity position: Adequate

JAI's liquidity is **adequate** with healthy cash flow from operations of over Rs. 250 crore in FY2019, unencumbered cash balance of Rs. 19.4 crore with no term debt on its books as of March 31, 2019, no major capex plans for FY2020 and availability of undrawn term loans (Rs. 70 crore as on July 31, 2019). While the management pursued a policy of LC-backed raw material sourcing during Q4 FY2019, which constrained its drawing power for availing fund-based limits as well as resulted in a below average current ratio at the end of the fiscal, the same was addressed during Q1 FY2020 through a change in funding mix as well as availment of term debt (repayments falling due from FY2021). The utilisation of fund-based limits (including commercial paper) for JAI (standalone) as a percentage of drawing power has been ~75% on an average over the 12 months ending June 2019. For JAI's subsidiary – Jai Suspension Systems Llp (JSS LLP), the same has been ~10% over the same period.

Overall, ICRA expects JAI to be able to meet its near-term commitments through internal as well as external sources of cash. In addition, the company has healthy financial flexibility to be able to raise debt at a short notice.

Rating sensitivities

Positive triggers – An upgrade could be triggered if there is a sustainable recovery in volumes that favourably impacts JAI's accruals along with an improvement in the company's liquidity profile. Further, material revenue diversification by ways of a sustained scale-up in the after-market supplies to a level that can offset any sharp decline in CV OEM volumes, could also trigger an upgrade.

Negative triggers – A downgrade could be triggered if there is any change in the management policy of financing raw materials through higher dependence on non-fund based limits during the fiscal, thereby increasing JAI's exposure to refinancing risk. Further, rating could also be downgraded if there's a sharp volume contraction over the near-to-medium term which leads to a deterioration in TOL/TNW to over 1.5 times on a sustained basis.

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	For arriving at the ratings, ICRA has considered the consolidated financials of JAI. As on June 31, 2019, the company had two subsidiaries, which are enlisted in Annexure-2.

About the company

JAI manufactures conventional leaf springs, parabolic leaf springs, air suspensions, and lift axles predominantly for the commercial vehicle (CV) segment. With an annual manufacturing capacity of 2,50,000 MT, the company is India's largest and the world's second largest commercial vehicle spring manufacturer. Its manufacturing facilities are located at Chennai, Yamuna Nagar (Haryana), Malanpur (Madhya Pradesh), Jamshedpur (Jharkhand), Hosur (Tamil Nadu), Pune (Maharashtra), and Sriperumbudur (Tamil Nadu). JAI is also a majority partner in Jai Suspension Systems LLP, which has manufacturing units in Pantnagar (Uttarakhand) and Lucknow (Uttar Pradesh).

Key financial indicators (audited)

	FY2018	FY2019	Q1 FY2020 (Unaudited)
Operating Income (Rs. crore)	1,742.6	2,134.8	420.5
PAT (Rs. crore)	125.3	137.5	20.4
OPBDIT/OI (%)	13.9%	13.0%	10.9%
RoCE (%)	51.7%	55.7%	
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.1	
Total Debt/OPBDIT (times)	0.3	0.0	
Interest Coverage (times)	11.9	10.1	
DSCR	5.9	4.9	

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating	FY2019	FY2018	FY2017	
					17-Sep-2019	30-Aug-2019	9-Aug-2018	24-Nov-2017	17-Mar-2017	24-Nov-2016
1	Term Loan	Long Term	0.0		-	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund-Based and Non-Fund Based	Long Term/ Short Term	390.0		[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
3	Fund-Based and Non-Fund Based	Long Term	130.0	30.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	-	-	-
4	Unallocated	Long Term/ Short Term	10.0		[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
5	Commercial Paper	Short Term	270.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	Provisional [ICRA]A1+

*Amount in Rs. Crore; *As on July 31, 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	Long-term/Short-term: Fund based/Non-fund Based	NA	NA	NA	390.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Long-term: Fund based/Non-fund Based	NA	NA	NA	130.00	[ICRA]AA- (Stable)
NA	Unallocated	NA	NA	NA	10.00	[ICRA]AA- (Stable)/ [ICRA]A1+
INE039C14563	Commercial Paper	25-Jun-19	7.75%	20-Sep-19	20.00	[ICRA]A1+
INE039C14589	Commercial Paper	5-Jul-19	7.85%	26-Sep-19	20.00	[ICRA]A1+
INE039C14597	Commercial Paper	8-Jul-19	7.85%	17-Sep-19	20.00	[ICRA]A1+
INE039C14605	Commercial Paper	23-Jul-19	7.75%	19-Sep-19	20.00	[ICRA]A1+
INE039C14639	Commercial Paper	5-Sep-19	7.50%	4-Dec-19	20.00	[ICRA]A1+
INE039C14654	Commercial Paper	13-Sep-19	7.50%	14-Nov-19	40.00	[ICRA]A1+
INE039C14647	Commercial Paper	13-Sep-19	7.50%	12-Dec-19	20.00	[ICRA]A1+
NA	Commercial Paper	Yet to be placed	NA	NA	110.00	[ICRA]A1+

Source: JAI

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Jai Suspension System LLP	100.00%	Full Consolidation
Jai Suspension Limited	100.00%	Full Consolidation

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About ICRA Limited:

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