March 27, 2020

Jamna Auto Industries Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term: Fund based/Non-fund Based	390.00	325.00	[ICRA]AA- (Negative)/ [ICRA]A1+ Reaffirmed; outlook revised to Negative from Stable
Long-term: Fund based/Non-fund Based	130.00	75.00	[ICRA]AA- (Negative)Reaffirmed; outlook revised to Negative from Stable
Long-term/Short-term: Unallocated	10.00	10.00	[ICRA]AA- (Negative)/ [ICRA]A1+ Reaffirmed; outlook revised to Negative from Stable
Total BLR	**530.00**	**410.00**	
Commercial Paper (CP)#	**270.00**	**100.00**	[ICRA]A1+ Reaffirmed

**Instrument details are provided in Annexure-1*
 # Carved out of existing working-capital limits

Rationale

ICRA has taken a consolidated view of Jamna Auto Industries Limited (JAI) and its subsidiaries (collectively referred to as the JAI Group), while assigning the credit ratings, given the common management and significant operational as well as financial linkages between the entities.

The revision in outlook factors in an expected continuation of weak demand trends in the commercial vehicle (CV) industry over the near term, led by a weak macroeconomic environment and price hikes on account of transition to BS-VI emission norms from April 2020. The demand trends in the CV industry have remained significantly weak during the current fiscal, with M&HCV (truck) volumes contracting by 42.3% in 11M FY2020. The same was a result of confluence of factors – revision in axle load norms (from July 2018), weak economic activity and infrastructure spending as well as weak financing availability (a result of liquidity constraints faced by NBFCs). In addition, post the implementation of GST and E-way bills, the turnaround time of trucks has improved considerably leading to surplus capacity in the trucking system, thereby hurting demand for new vehicles. The weakness in M&HCV demand resulted in moderation in sales of JAI Group to CV original equipment manufacturers (OEMs), along with a decline in its aftermarket sales in 9M FY2020, as transport operators deferred replacement cycle, marking a sharp 44.2% decrease in the Group's overall sales. Even as the Group has been able to curtail the impact of the significant reduction in its scale of operations through various cost control initiatives, a continuation of weak demand trends in the industry is likely to result in a further moderation in JAI Group's earnings and deterioration in credit profile.

The assigned ratings note the Group's leadership position in the domestic leaf and parabolic spring market as well as its edge over its peers, aided by scale, competitive pricing and strategic proximity to its customers across its manufacturing locations in India. The rating reaffirmation favourably factors in the various cost control measures undertaken by the management, which has helped the Group in reporting relatively healthy margins during one of the worst industry downturns seen in the recent past. 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 the export demand. The Group's conservative capital structure, in line with the management's guidance of funding capital expenditure through internal accruals supports the ratings.

Going forward, even though a recovery in the M&CV industry (and hence, the JAI Group's revenues) could be limited over the near-term, ICRA expects the Group to benefit from its increased focus on replacement and export market as well as new product development. This will provide medium-term growth opportunities and lead to even stronger business relations with OEMs with higher content per vehicle.

Key rating drivers and their description

Credit strengths

Strong business position with CV OEMs – The JAI Group is the market leader in the domestic M&HCV OEM market for leaf springs, with a dominant share of its business coming from two of the leading CV OEMs - Tata Motors Limited (TML) and Ashok Leyland Limited (ALL). The Group continues to maintain healthy business relations with the OEMs, as evident from a strong and stable share of business over the years (JAI's market share has remained at levels of 65-71% over the past few quarters with some variation due to disparity in sales of different models). With focus on quality as well as superior technology, JAI is expected to maintain its dominant position in the CV OEM market for springs.

Favourable shift in sales mix towards higher value-accretive products supports future prospects – Over the recent years, the Group has witnessed a growth in revenue contribution from the higher-value accretive products such as parabolic springs. The contribution of parabolic springs to JAI's sales revenue has improved gradually to nearly 29% in 9M FY2020 from 9% in FY2011. In addition, the Group has introduced new products such as lift axles and air suspensions for CV OEMs. The shift in product mix has been critical over the years in substantially bringing down the break-even sales volume for the Group, allowing it to withstand cyclicality in the domestic CV industry. With the Group planning to expand its presence in the market for allied products, the same is likely to result in further value addition in the medium term.

Strategic proximity to OEM customers provides competitive advantage – The JAI Group's manufacturing plants are spread across nine locations in India, which are 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 the Group's dominant market position. This has helped it 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 springs.

Comfortable credit profile with healthy profitability and coverage metrics – JAI, on a consolidated level, 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 indicators are likely to deteriorate in FY2020 because of lower earnings (as indicated by an interest coverage of 6.3 times in 9M FY2020), the overall credit profile is expected to remain comfortable. Moreover, the JAI Group's favourable cost structure includes a high proportion of variable costs providing financial resilience, which is visible from an operating margin of 9.7% in 9M FY2020, despite the sharp moderation in volume.

Credit challenges

High dependence on CV segment exposes JAI to cyclicality associated with the industry – The JAI Group has significant dependence on the domestic M&HCV segment, which exposes it to the inherent cycle nature of the underlying industry. This impact was visible during 9M FY2020, whereby the M&HCV (trucks) production contracted by 48.1%, while the Group's operating profits declined by 58.4%. Despite the management's initiatives to develop a widespread network for the after-market segment, its ability to scale up its after-market supplies to a 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 Tata Motors Limited (TML) and Ashok Leyland Limited (ALL) remain the JAI Group's major customers, together contributing to ~70% of its sales revenue in FY2019 with VE Commercial Vehicles Ltd. (VECV) and Daimler India Commercial Vehicles Pvt. Ltd. (Daimler India) being the other OEMs being catered by the Group. This results in high client concentration for the Group, which is partly mitigated by the strong market position of these OEMs and the Group's healthy share of business with these companies, along with the 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 over the past five years, the Group's revenues have primarily been derived from leaf springs, leading to high product concentration risk. However, the same is likely to moderate in the medium-term with the Group focussing on expanding its presence in the market for allied products.

Elongation of receivable days has led to greater working capital requirement – The current downturn in the CV industry has resulted in several of the Group's customers delaying payments, thereby resulting in an elongated receivable cycle and limited buffer in its working capital limits. This was indicated by NWC/OI of 18.3% during H1 FY2020. However, the same is mitigated by the Group's low leverage and undrawn term loans (Rs. 117 crore as on December 31, 2019), which provides financial flexibility.

Liquidity position: Adequate

The JAI Group's liquidity is **adequate**, supported by availability of undrawn term loans (Rs. 117 crore as on December 31, 2019) and limited repayment obligations (scheduled repayment being ~Rs. 6 crore in FY2021 and less than Rs. 15 crore per annum post that), even as its fund flow from operations witnessed a significant decline in the current fiscal (Rs. 42.0 crore in H1 FY2020 as against Rs. 90.5 crore in H1 FY2019). The utilisation of fund-based limits (including commercial paper) for JAI (consolidated), as a percentage of drawing power, has been ~71% on an average over the 12 months that ended in February 2020. The Group has capex plans of Rs. 80-85 crore per annum going forward. ICRA expects the Group to be able to meet its near-term commitments through its internal as well as external sources of cash. Additionally, the Group has healthy financial flexibility to be able to raise debt at a short notice, which provides comfort.

Rating sensitivities

Positive triggers – The outlook on the long-term rating may be revised to Stable if there is a sustainable recovery in volumes that favourably impacts the JAI Group's cash accruals, along with an improvement in its credit metrics. 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 as well as a scale up in revenues from new product launches, may lead to a positive rating action.

Negative triggers – The rating may be downgraded if there is a prolonged slowdown in the CV industry, which leads to deterioration in the Group's cash accruals and credit profile. Specific credit metrics which may trigger a downgrade include Total Debt/OPBDITA over 1.5 times and RoCE below 16.0% on a sustained basis. Furthermore, a downgrade may 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 the JAI Group's exposure to refinancing risk. High utilisation of working capital limits in relation to its drawing power could also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of JAI. As on December 31, 2019, the company had three subsidiaries, which are enlisted in Annexure-2.

About the company

Incorporated in 1965, Delhi-NCR based Jamna Auto Industries Limited (JAI) is involved in manufacturing conventional leaf springs, parabolic leaf springs, air suspensions and lift axles predominantly for CVs. With a consolidated annual manufacturing capacity of 2,50,000 MT, the company remains India's largest and the world's third largest CV spring manufacturer. JAI's manufacturing facilities are located at Yamuna Nagar (Haryana), Chennai (Tamil Nadu), Malanpur (Madhya Pradesh), Jamshedpur (Jharkhand), Hosur (Tamil Nadu), Pune (Maharashtra), and Sriperumbudur (Tamil Nadu). In FY2019, it generated 84-86% of its sales from the OEM segment, followed by 13% and 1% from replacement and exports segment, respectively. The company's mainstay – leaf spring segment contributes ~91% to its sales, followed by other products such as lift axles and air suspensions (~9%). Its top three customers viz Ashok Leyland Limited (ALL), Tata Motors Limited (TML) and Daimler India Commercial Vehicles Pvt. Ltd. (Daimler India) accounted for ~78% of its turnover in FY2019.

JAI is also a majority partner (99.9985% stake) in Jai Suspension Systems LLP (JSSLLP), which has its plant at Pant Nagar (Uttarakhand), Indore (Madhya Pradesh) and Adityapur (Jharkhand). JAI is listed on BSE and NSE and the promoters, Jauhar family, own 48.6% stake in the company.

Key financial indicators (audited) – JAI consolidated

	FY2018	FY2019	9M FY2020 (Unaudited)
Operating Income (Rs. crore)	1,742.6	2,134.8	891.5
PAT (Rs. crore)	125.3	137.5	36.8
OPBDIT/OI (%)	13.9%	13.0%	9.7%
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	6.3
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	Earlier Rating	FY2019	FY2018	FY2017	
					27-Mar-2020	17-Sep-2019	30-Aug-2019	9-Aug-2018	24-Nov-2017	17-Mar-2017	24-Nov-2016
1	Fund-Based/ Non-Fund Based	Long Term/ Short Term	325.0		[ICRA]AA- (Negative)/ [ICRA]A1+	[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+
2	Fund-Based/ Non-Fund Based	Long Term	75.0	30.0	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	-	-	-
3	Unallocated	Long Term/ Short Term	10.0		[ICRA]AA- (Negative)/ [ICRA]A1+	[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+
4	Commercial Paper	Short Term	100.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	Provisional [ICRA]A1+

*Amount in Rs. crore; *As on December 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	325.00	[ICRA]AA- (Negative)/ [ICRA]A1+
NA	Long-term:Fund based/Non-fund Based	NA	NA	NA	75.00	[ICRA]AA- (Negative)
NA	Unallocated	NA	NA	NA	10.00	[ICRA]AA- (Negative)/ [ICRA]A1+
NA	Commercial Paper	Yet to be placed	NA	NA	100.00	[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
Jai Automotive Components Limited	100.00%	Full Consolidation

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