August 03, 2020

ZF Steering Gear (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loan	125.00	0.00	-
Long-term fund based	1.00	30.00	[ICRA]A+(Negative) reaffirmed
Long-term/Short-term non-fund based	0.00	20.00	[ICRA]A+(Negative)/[ICRA]A1+ reaffirmed
Short-term non-fund based	0.35	0.00	-
Total	**126.35**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

The negative outlook reflects ICRA's expectation that the credit profile of ZF Steering Gear India Limited (ZFI) will weaken over the near to medium term due to pressure on its core operations given the persisting slow-down in the domestic medium and heavy commercial vehicle (M&HCV) accelerated by the COVID-19 pandemic in FY2021. The company registered a 34% YoY decline in topline during FY2020 because of weak demand in the underlying M&HCV segment. Due to negative operating leverage, ZF's operating margin declined to 11% in FY2020 from 18% in FY2019. The company's RoCE declined sharply due to weak operational performance and the commissioning of ZF's new plant in Pithampur which is operating at very low capacity. ICRA expects the company's revenues to decline over 30% in FY2021 as well, in line with underlying trend in the domestic M&HCV industry. Consequently, the operating profitability and return indicators are likely to remain weak in FY2021. However, capital structure and liquidity position of the company is likely to remain solid supported by sizable cash and liquid investments of over Rs 110 crore. ZFI is a net debt free entity and it is likely to maintain conservative capital structure over the medium term, in absence of any major capex/investment plans.

The ratings reaffirmation continues to reflect ZFI's strong position in the domestic power steering segment, established relationship with domestic automobile OEMs and its healthy operating efficiencies. ICRA notes that Robert Bosch Automotive Systems which is amongst the largest steering system manufacturers globally, holds 25.89% stake in ZFI. With the manufacturing plant in Pithampur becoming operational, the company has partially offset asset concentration risks. The credit strengths are partially offset by ZFI's modest scale of operations, susceptibility to the inherent cyclicality in the domestic M&HCV and tractor industry and continuous need to upgrade technology in view of technology-intensive nature of products. The company does not have any major debt funded capital expenditure plans in the anvil, however risk of any inorganic growth plans cannot be ruled out and would be evaluated on a case to case basis.

Key rating drivers and their description

Credit strengths

Strong position in the domestic steering systems industry for HCV and tractors; established relationship with leading OEMs -The Indian steering gear market is primarily dominated by three major players viz JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited; rated [ICRA]AA/Stable/A1+), Rane TRW Steering Systems Private Limited (Rane; rated [ICRA]AA-/Stable/A1+) and ZFI. While JTEKT is primarily present in the passenger vehicle (PV) segment, ZFI and Rane Group are mainly present in the commercial vehicle and tractor segment. Overall, the domestic M&HCV and tractor steering system market is primarily duopolistic in nature with ZFI and Rane Group accounting for ~90% of the market share

Comfortable capitalization and coverage indicators- ZF is net debt free, and hence it has comfortable coverage indicators with Total Debt/ OPBDITA of 0.1 time and DSCR of 2.5 times as of March 31,2020.

Strong liquidity position - The company reported cash, bank balance and investments (including investment in liquid fund, equity shares and other mutual funds) to the tune of Rs. 113 crore as on March 31,2020.

Credit challenges

Susceptible to inherent cyclicality in the domestic CV and tractor segment; negligible presence in power steering segments of PV and tractor business- ZFI primarily supplies power steering systems for CVs and mechanical steering systems for tractors. The company has underperformed in the mechanical steering supplies for the tractor segment, as demand is gradually shifting towards power steering, where ZFI has a weak market position. Moreover, both M&HCV as well as tractor industry are currently in cyclical downturn which is likely to pressurize revenue as well as profitability indicators of ZFI over next few quarters. Current headwinds in the CV industry is likely to have significant impact of revenue and profitability indicators in the near term. The company has limited presence in the PV segment.

Continuous need to upgrade technology to avoid obsolescence - Steering systems, being critical automobile components, are however subject to marginal changes in design during the transition between emission norms or change in fuel and, hence, requires frequent investments in technology to prevent obsolescence.

Liquidity position: Strong

The company has cash and liquid investments to the tune of Rs.113 crore as of March 31,2020. While net profits are likely to weaken significantly due to moderation in operating margin as well as high depreciation expense, it is expected to generate cash profits in FY2021. Given modest debt level, adequate buffer in working capital lines and adequate cash profits, company's liquidity position is likely to remain strong in the near to medium term.

Rating sensitivities

Positive triggers – Given negative outlook on the long term rating, the rating upgrade from current level is unlikely. The outlook can be revised to stable if there is sustained improvement in turnover and profit margins.

Negative triggers – There could be downward pressure on rating if ZF's operating performance leading to persistent operational losses in the medium term. Dilution in promoter's stake in the entity due to stake sale or invocation of pledged shares is another key monitorable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Autocomponent Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on Standalone financial statements of ZFI

About the company

ZF Steering Gear (India) Limited was founded by the Munot family and ZF Lenkystene GmbH. Later, Robert Bosch Automotive Steering GmbH acquired ZF Lenkystene GmbH and renamed the company as Robert Bosch Automotive Steering GmbH. The company manufactures, assembles and deals in steering gears with an installed manufacturing capacity of 2.0 lakh mechanical steering gear units and 3.75 lakh hydraulic power steering gear units per annum. ZFI's manufacturing plant is at Vadu Budruk Village in the Tal Shirur district of Maharashtra.

The company's steering gears are used in buses and are supplied to various state transport undertakings as well as to heavy vehicles like dumper and haulage trucks. Buses fitted with power steering gears reduce the drivers' efforts in steering the vehicle and add to their safety. As on March 31, 2020, promoter group holds 67.39% stake in family wherein Munot family holds 41.5% stake in the company and RBAS holds 25.89% stake. Munot family has pledged their 16.53% stake in ZFI as on March 31,2020.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	439.4	286.6
PAT (Rs. crore)	(1.3)	(0.3)
OPBDIT/OI (%)	18%	12%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.1
Total Debt/OPBDIT (times)	0.6	0.1
Interest Coverage (times)	39.8	30.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding*	Date and Rating 04-Aug-2020	FY2020		FY2019			FY2017
						25-Oct-2019	10-June-2019	28-Feb-2019	30-Oct-2018	05-Apr-2018	03-Mar-2017
1	Term Loan	Long Term	0.00	0.00	NA	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund based limit	Long Term	30.00	0.00	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-fund based limit	Short Term	0.00	0.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+
4	Non-fund based	Long/Short-term	20.00	0.00	[ICRA]A+ (Negative)/ [ICRA]A1+						

*Amount in Rs. Crore; *- As of march 31,2020*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Long-term Fund based Limit				30.00	[ICRA]A+(Negative)
	Long-term/ Short-term non-fund based				20.00	[ICRA]A+(Negative)/ [ICRA]A1+

Annexure-2: List of entities considered for consolidated analysis - NA

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About ICRA Limited:

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