# Jamna Auto Industries Limited

**August 09, 2018**

## Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term Loan | 70.00 | 85.00 | [ICRA]AA(Stable); upgraded from [ICRA]AA-, outlook revised to Stable from Positive |
| Long-term/Short-term: Fund based/Non-fund Based | 320.00 | 295.00 | [ICRA]AA(Stable)/[ICRA]A1+; revised from [ICRA]AA-(Positive)/[ICRA]A1+ |
| Long-term: Fund based/Non-fund Based | - | 130.00 | [ICRA]AA(Stable); assigned |
| Long-term/Short-term: Unallocated | 40.25 | 20.00 | [ICRA]AA(Stable)/[ICRA]A1+; revised from [ICRA]AA-(Positive)/[ICRA]A1+ |
| **Total BLR** | **430.25** | **530.00** | |
| **Commercial Paper (CP)#** | **270.00** | **270.00** | [ICRA]A1+; reaffirmed |

*Instrument details are provided in Annexure-1

# Carved out of existing working-capital limits

## Rating action

ICRA has upgraded the long-term rating to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus) and reaffirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 380.00-crore[1] (earlier Rs. 390.00 crore) bank lines as well as the Rs. 20.00-crore (earlier Rs. 40.25 crore) unallocated lines of credit of Jamna Auto Industries Limited (JAI or the company)[2]. In addition, the long-term rating of [ICRA]AA has been assigned to the Rs. 130.00-crore fund-based/non-fund based bank lines of the company. The outlook on the long-term rating has been revised to Stable from Positive.

ICRA has also reaffirmed the [ICRA]A1+ rating for the Rs. 270.00-crore CP / STD (carved out of existing working capital limits) programme of the company.

## Rationale

The upgrade in the ratings of JAI takes into consideration the sustainable improvement in its cost structure following rising share of value-added products in its product mix as well as strengthened distribution network for after-market sales. Over the past years, JAI's product mix has shifted towards value accretive products such as parabolic springs and lift axles, in turn lowering break-even sales volume. ICRA notes the management's initiatives to further improve the product mix as well as increase content per vehicle (through new products introduction), while controlling fixed cost will further strengthen JAI's ability to withstand the cyclicality associated with the end-user commercial vehicle segment. During FY2017-FY2018, the company invested in expanding its after-market distribution network in India as well as in increasing its export market footprint. ICRA notes that the strengthened IT systems for managing the distribution network substantially scales up JAI's ability to leverage itself in the event of any downturn in domestic CV sales. The ratings assigned continue to 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 and strategic proximity to its customers across India. The

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

ratings also factor in the conservative capital structure in line with the management's guidance of funding capital expenditure from internal accruals. Over recent years, the management has followed the discipline of utilising cash accruals for any capacity expansion, and has kept its dependence on external borrowings low, which has supported its credit metrics. JAI has significant capex plans (~ Rs. 650 crore) spread over the next three to four years (FY2019-FY2022) towards capacity creation for its existing as well as new products. Notwithstanding such plans, the discretionary nature of some of these expansion plans as well as the management's stance on capex funding support the rating action. Nonetheless, the impact of any major debt funded expansion on JAI's credit profile will be evaluated on a case-to-case basis.

The ratings, however, continue to be constrained by JAI's significant dependence on domestic original equipment manufacturers (OEMs) of medium and heavy commercial vehicles (M&HCVs), which exposes the company to cyclicality in the M&HCV segment. ICRA also notes its high client concentration with majority of sales to its top two customers, Tata Motors Limited (TML) and Ashok Leyland Limited (ALL). While the company's client concentration risk is partly mitigated by the large market share of these OEMs and JAI's healthy share of business with them, ICRA takes comfort from the management's efforts to expand JAI's share in the domestic after-market and exports markets. Moreover, JAI derives majority of its revenues from a single product category, leaf springs, which is commoditised in nature. Notwithstanding the high product concentration risk, ICRA takes cognisance of the scale economies that have supported the cost competitiveness as well as management initiatives to expand its product coverage, offering technically superior products through its arrangement with Tinsley Bridge Limited.

## Outlook: Stable

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will grow at a healthy pace over the medium term, led by healthy off-takes by OEMs while gradually scaling up its after-market and export sales. The Stable outlook also reflects ICRA's belief that given the improved cost structure and diversified market mix, the company's credit metrics may not witness sharp deterioration even during any prolonged CV industry downcycle. The outlook may be revised upwards if the company is able to sustainably diversify its revenue streams, especially in replacement and export markets, such that its dependence on the domestic CV industry OEMs reduces significantly while maintaining a comfortable credit risk profile. The outlook may be revised to Negative if there is any major debt-funded expansion or inorganic growth initiatives, which may lead to significant deterioration in JAI's credit profile. The outlook may also be revised to Negative if there is any change in the management's stance on capex plans and their funding mix, which can adversely impact financial metrics.

## Key rating drivers

## Credit strengths

**Strong business position with CV OEMs; healthy revenue visibility over FY2019 and FY2020** - JAI has 72% market share in the domestic M&HCV OEM market for leaf springs with dominant share of business with TML and ALL, which comprises more than 80% of the M&HCV production volume in India. This strong presence with the key industry players has led to JAI's fortunes being tied to the domestic M&HCV industry. ICRA expects the M&HCV segment to grow at ~8% in FY2019 and ~15% in FY2020, driven by pre-buying impact due to BS-VI implementation from April 01, 2020, which augurs well for JAI's revenue and earnings prospects.

**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 25% as of FY2018 from 9% as of FY2011. Lift axle, which was launched in FY2014, contributed 11% to JAI's sales revenues during

FY2018. This shift in product mix has been critical in substantially bringing down the break-even sales volume for the company, allowing it to withstand cyclicality in the domestic CV industry.

**Strengthened distribution network for domestic after-market and export markets counter-weights impact of cyclicality in domestic CV industry** - JAI has invested in strengthening its distribution network for domestic after-market segment as well as its footprint in export markets over the last two years. At present, JAI's domestic distribution network comprises 250 distributors, 7,500 retailers and 10,000 mechanics across various tier-I and II cities of India. In addition, JAI has an established sales enterprise resource planning (ERP) system to streamline its supply chain. In the exports for after-market segment the company has expanded its network to 10 countries in FY2018 over six countries in FY2017. ICRA notes that in FY2018, non-OEM sales was restricted to 15% of total sales revenue as JAI's capacity was deployed towards increased off-takes by OEMs. Going forward, through the creation of additional capacity the company would be able to leverage its domestic after-market as well as exports. Moreover, in case of downturn in domestic OEM sales, its spare capacity can be used to expand its presence in these markets.

**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.

## Credit challenges

**High dependence on CV segment exposes JAI to cyclicality associated with the industry** - The ratings continue to be constrained by JAI's significant dependence on the domestic OEM M&HCV segment, which exposes it to the inherent cyclicality of the industry. Despite the management's initiatives to develop a wide spread 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. Further, ICRA notes that TML and ALL are JAI's major customers, together generating ~72% of its sales revenue in FY2018. Although JAI enjoys a healthy share of business with other OEMs as well, but such sales are small in comparison to that of TML and ALL, who dominate the domestic CV market (during FY2018 TML and ALL had a combined share of 83.6% in domestic M&HCV sales).

**Significant capex plans over the medium term** – JAI has significant capex plans (~ Rs. 650 crore) spread over the next three to four years towards capacity creation for existing as well as new products. Among its existing products, the expansion would be primarily for parabolic springs, which are attracting healthy demand from OEMs as well as the after-market. In addition, some capex would be incurred for new products, in line with the management's focus on increasing the content per vehicle by adding allied components (u-bolts and stabiliser bars). JAI's ability to leverage the additional capacity, through scale-up of after-market and export sales, in case of any CV down cycle would remain a key sensitivity. Notwithstanding such plans, the management's guidance of funding capital expenditure from internal accruals as well as the discretionary nature of some of these expansion plans support the rating action.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

**Links to applicable criteria:**

[Corporate Credit Rating Methodology]

[Rating Methodology for Auto Component Manufacturers]

## About the company:

JAI is engaged in manufacturing conventional leaf springs, parabolic leaf springs, air suspensions, and lift axles predominantly for the commercial vehicle (CV) segment. With an annual manufacturing capacity of 2,40,000 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

| JAI (Consolidated) | FY2017 | FY2018 |
|---|---|---|
| Operating Income (Rs. crore) | 1295.3 | 1742.6 |
| PAT (Rs. crore) | 105.0 | 125.3 |
| OPBDIT/ OI (%) | 15.8% | 13.9% |
| RoCE (%) | 55.6% | 51.7% |
| | | |
| Total Debt/ TNW (times) | 0.2 | 0.1 |
| Total Debt/ OPBDIT (times) | 0.4 | 0.3 |
| Interest Coverage (times) | 14.2 | 11.9 |

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital (excluding cash and liquid investments).*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

| S. No. | Instrument | Current Rating (FY2019) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount O/S* (Rs. crore) | Date & Rating | Date & Rating in FY2018 | Date & Rating in FY2017 | | Date & Rating in FY2016 |
| | | | | | August 2018 | November 2017 | March 2017 | November 2016 | January 2016 |
| 1 | Term Loan | Long Term | 85.00 | 40.00 | [ICRA]AA (Stable) | [ICRA]AA- (Positive) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) |
| 2 | Fund-Based and Non-Fund Based | Long term/ Short term | 295.00 | | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA- (Positive)/ [ICRA]A1+ | [ICRA]AA- (Stable)/ [ICRA]A1+ | [ICRA]AA- (Stable)/ [ICRA]A1+ | [ICRA]AA- (Stable)/ [ICRA]A1+ |
| 3 | Fund-Based and Non-Fund Based | Long term | 130.00 | | [ICRA]AA (Stable) | - | - | - | |
| 4 | Unallocated | Long term/ Short term | 20.00 | | [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 | 270.00 | | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | Provisional [ICRA]A1+ | |

*o/s as on March 31, 2018

## 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 |
|---|---|---|---|---|---|---|
| | Term loan-1 | FY2016 | | FY2018 | 15.00 | [ICRA]AA (Stable) |
| | Term loan-2 | FY2018 | | FY2021 | 70.00 | [ICRA]AA (Stable) |
| | Long-term/Short-term: Fund based/Non-fund Based | - | - | - | 295.00 | [ICRA]AA (Stable)/ [ICRA]A1+ |
| | Long-term: Fund based/Non-fund Based | - | - | - | 130.00 | [ICRA]AA (Stable) |
| | Unallocated | - | - | - | 20.00 | [ICRA]AA (Stable)/ [ICRA]A1+ |
| | Commercial Paper | - | - | - | 270.00 | [ICRA]A1+ |

Source: JAI

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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