

June 10, 2019

ZF Steering Gear (India) Limited: Ratings reaffirmed for enhanced limits; removed from Rating Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term loan	50.00	125.00	[ICRA]A+ reaffirmed; removed from ratings watch with developing implications and stable outlook assigned
Long-term fund based	4.00	1.00	[ICRA]A+ reaffirmed; removed from ratings watch with developing implications and stable outlook assigned
Short-term non-fund based	11.65	0.35	[ICRA]A1+; reaffirmed; removed from ratings watch with developing implications
Total	65.65	126.35	

*Instrument details are provided in Annexure-1

Rationale

ZF Steering Gear India Limited (ZFI) has entered into an agreement with Robert Bosch Automotive Steering GmbH (RBAS), to sell its stake in the loss-making joint venture (JV), Robert Bosch Automotive Steering Private Limited (RBASPL), for a consideration of Rs. 62.50 crore, while the total investment in the JV was Rs. 129.35 crore as of March 2019. Despite loss of Rs. 68.35 crore due to provision made for carrying amount in diminution in value of investment, ICRA views this development positively, considering the absence of any more capital infusion in the loss-making JV. The proceeds from stake sale will further strengthen its capital structure and reduce dependency on external borrowings to undertake the ongoing large greenfield capacity expansion in Pithampur (Madhya Pradesh). Hence, the ratings are removed from a 'Rating Watch with Developing Implications' and a Stable outlook is assigned to the long-term rating.

The ratings reaffirmation continues to reflect ZFI's strong position in the domestic power steering segment, established relationship with domestic automobile OEMs and its superior operating efficiencies. The ratings favourably factor in its healthy profitability indicators, comfortable capital structure and liquidity position. ICRA notes that ZFI's presence in the renewable energy continues to support its profitability during slowdown in the core automotive business. ICRA draws comfort that RBAS which is amongst the largest steering system manufacturers globally, holds 25.89% stake in ZFI.

The credit strengths are partially offset by ZFI's modest scale of operations, susceptibility to the inherent cyclicality in the domestic heavy commercial vehicle (HCV) and tractor industry and continuous need to upgrade technology in view of technology-intensive nature of products. The company is investing around Rs. 175 crore towards greenfield capacity expansion in Pithampur, which is likely to commence operations in CY2020. The ability to timely ramp-up operations at the new unit and sustain its return indicators is a key rating monitorable.

Outlook: Stable

ICRA expects ZFI to continue to benefit from its strong position in steering supplies for the M&HCV industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity, or if there is any substantial pledging of shares by the Indian promoters.

Key rating drivers

Credit strengths

Dominant 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 are mainly present in the commercial vehicle and tractor segment. **Overall, the domestic CV and tractor steering system market is primarily duopolistic in nature with ZFI and Rane accounting for ~90% of the market share.**

Strong financial risk profile with healthy profitability and comfortable capital structure - ZFI has maintained strong operating margins over 17% in the last three fiscals driven by the complex nature of its product, income from the renewable segment, strong market position in the automotive steering segment and operational efficiencies. With a low gearing of 0.1 time and comfortable coverage indicators with Total Debt/ OPBDITA of 0.6 time and DSCR of 8.0 times as on March 31, 2019, the company's financial profile remains strong. As of March 2019, about 43.7% of the Indian promoter's shareholding was pledged, and timely release of share-pledge is a key rating monitorable.

Strong liquidity position supported by liquid investments - The company reported cash, bank balance and liquid investments (equity shares and mutual funds) to the tune of ~Rs. 89 crore as on March 31, 2019, which coupled with minimal working capital limit utilisation of ~0.2% results in healthy liquidity.

Credit challenges

Susceptible to inherent cyclicity in 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. While both the tractor and M&HCV segments are cyclical in nature, the long-term prospects are favourable because of low tractor penetration in India and improving road infrastructure, which is a key growth driver for the HCV segment. ZFI has limited presence in the PV segment.

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

Liquidity position

As on date, the company is net debt free with cash and liquid investment in excess of Rs. 89 crore. ZFI has been sanctioned corporate loans to the tune of Rs. 125 crore for capital expansion, of which it has drawn down only Rs. 32 crore. Overall, its debt repayment obligation remains modest, which could be comfortably serviced by internal accruals.

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	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 Lenkysteme GmbH. Later, Robert Bosch Automotive Steering GmbH acquired ZF Lenkysteme 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.

In FY2019, ZFI reported a net loss of Rs. 1.3 crore on an operating income (OI) of Rs. 439.4 crore, as compared to a net profit of Rs. 47.1 crore on an OI of Rs. 424.6 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	424.6	439.4
PAT (Rs. crore)	47.1	(1.3)
OPBDIT/OI (%)	20%	18%
RoCE (%)	15%	-3%
Total Debt/TNW (times)	0.2	0.1
Total Debt/OPBDIT (times)	0.7	0.6
Interest Coverage (times)	26.9	39.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2019 Oct 2018	Date & Rating in FY2019 Apr 2018	Date & Rating in FY2017 Mar 2017	
1	Term loan	125.00	32.00	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Fund based limit	1.00	-	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3	Non-fund based limit	0.35	-	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	

& implies 'Rating on watch with developing implication'

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	FY2017	8.5%	FY2022	50.00	[ICRA]A+ (Stable)
	Term loan	FY2017	8.5%	FY2022	75.00	[ICRA]A+ (Stable)
	Fund based limit				1.00	[ICRA]A+ (Stable)
	Non-fund based limit				0.35	[ICRA]A1+

Source: ZFI.

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