JTEKT

JTEKT INDIA LIMITED
(Formerly known as Sona Koyo Steering Systems Limited)

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12th May, 2020

The Corporate Relationship Department
Mumbai Stock Exchange
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Dalal Street, Fort, Mumbai 400 001.
Scrip Code - 520057

National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G
Bandra – Kurla Complex, Bandra (E)
Mumbai 400 051.

Symbol – JTEKTINDIA; Series – EQ.

Sub: Intimation of Credit Ratings

Dear Sir,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Regulations"), we hereby inform you that ICRA Limited, vide its letter 11th May, 2020, have reaffirmed the credit ratings for the bank facilities availed by the Company.

The aforesaid letter received by the Company from ICRA Limited is enclosed herewith for your reference and record.

Thanking you,

Yours faithfully,
For **JTEKT INDIA LIMITED**

SD/-

NITIN SHARMA
COMPANY SECRETARY

May 11, 2020

JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	71.35	71.35	[ICRA]AA (Stable); Reaffirmed
Term Loans	131.29	44.91	[ICRA]AA (Stable); Reaffirmed
Short-term Non-Fund based	40.00	40.00	[ICRA]A1+; Reaffirmed
Short-term Fund Based	62.50	32.50	[ICRA]A1+; Reaffirmed
Short-term Fund based/Non-fund based	39.00	0.00	-
Long term/ Short-term-Fund based/Non-fund based	0.00	85.00	[ICRA]AA (Stable)/ A1+; Assigned
Commercial Paper	15.00	15.00	[ICRA]A1+; Reaffirmed
Long-term Unallocated	30.00	30.00	[ICRA]AA (Stable); Reaffirmed
Short-term Unallocated	11.00	11.00	[ICRA]A1+; Reaffirmed
Total	**400.14**	**329.76**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in JTEKT India Limited's (JIL) position as a leading supplier of steering systems to passenger vehicle (PV) Original Equipment Manufacturers (OEMs) in India, strong business and technical support from its parent company – JTEKT Corporation (JTEKT), Japan as well as its well diversified product offerings.

JIL enjoys a leading position in the steering system segment in India with strong presence in manual steering gears (MSG), electronic power steering (EPS) and hydraulic power steering (HPS) systems. It continues to maintain healthy share of business with some of the leading PV OEMs in India, including Maruti Suzuki India Limited (MSIL), Mahindra & Mahindra Limited (M&M), Honda Cars India Limited (HCIL) and Toyota Kirloskar Motor Private Limited (TKML), which further strengthens its business profile.

The ratings also continue to factor in the strong business and technical support from its parent company, JTEKT Corporation. JTEKT supports JIL with its marketing efforts, new customer acquisition and technical support. Being part of the Toyota Group, JIL also maintains almost 100% share of business with TKML in India. Further, the presence of a Japanese parent has also helped the company acquire healthy share of business from subsidiaries of other Japanese OEMs in India. In addition to the favourable business linkages, the Japanese parentage has also helped the company in tying up unsecured lines of credit from Japanese banks on JTEKT's corporate guarantee at competitive interest rates.

Despite JIL's strong business profile, ICRA believes the company's earnings would moderate further in the current fiscal after a relatively subdued performance in FY2020. The domestic automotive industry, which had already been undergoing a period of sharp slowdown over the past few quarters, has been further impacted by the outbreak of the novel coronavirus (Covid-19) in the country over recent months. To contain the rapid proliferation of the disease, the Government of India imposed a 21-day lockdown from March 24, 2020, which was further extended till May 17, 2020. The unprecedented, large-scale lockdown has disrupted production of automobile OEMs and their supply chain during March 2020 onwards. In addition to the production disruptions, the demand shock on account of the pandemic could be significant, going forward, in an already weak demand environment. Accordingly, auto component companies, including JIL, are likely to witness lower earnings in the near-term. Despite some weakness, the credit metrics are expected to remain at comfortable levels given that the company's overall leverage remains low on a net debt basis. Nevertheless, if the downturn in automobile demand is higher than expected, ICRA will review the impact of the same on the company's credit profile.

ICRA notes that the amalgamation of JSAI into JIL has been completed retrospectively with effect from April 01, 2018. As per an earlier business alignment, JSAI was engaged in manufacturing column type EPS (CEPS) systems, while JIL manufactured MSGs, HPS and CEPS for PV OEMs in India. After the amalgamation, the entire steering system is manufactured under a single entity. This benefits the company in acquiring new business and improving its overall profitability metrics by reducing corporate overhead costs. Additionally, the surplus cash balances of ~Rs. 110 crore in JSAI at the time of amalgamation was used partially to prepay some debt in JIL during FY2020. Supported by comfortable cash accruals, moderate capital expenditure and repayment of existing loans, JIL's credit profile remains comfortable with total debt to OPBITDA ratio at 0.9x in H1 FY2020 (FY2019: 0.9x) and gearing ratio at 0.2x in H1 FY2020 (FY2019: 0.3x). Going forward also, ICRA expects the internal accruals and existing cash and liquid balances to remain sufficient to meet capex and debt servicing obligations. Hence, the credit and coverage metrics are expected to remain comfortable over the near term.

Despite these credit positives, the ratings remain constrained by the competitive intensity in the steering system space and JIL's segment concentration risks. Although JIL is a leading player in the steering system space, it faces stiff competition from the Rane Group, which operates through entities such as Rane Madras (for manual steering gears) and Rane NSK (for CEPS). Further, as part of their strategy to mitigate vendor concentration risk, OEMs tend to appoint more than one supplier. JIL's key customer, MSIL, has also been following this strategy, which has led to a decline in JIL's share of business with MSIL to 50-55% at present from ~60-70% a few years back.

JIL's business profile is also characterised by high concentration on the domestic PV industry and dependence on select OEMs. To mitigate its concentration in the PV segment, the company had developed an electric power steering module for off-road vehicles and tractors. Although this segment has reported healthy revenue growth in the past few years, it continues to be a small contributor to JIL's overall revenues.

The Stable outlook on the long-term rating reflects ICRA's belief that JIL will continue to maintain its dominant position in the supply of steering systems to the domestic PV industry, although revenues would remain constrained during the current fiscal by the pandemic outbreak and its subsequent impact on the demand for automobiles in India. Nevertheless, the company is expected to continue to maintain a comfortable capital structure and credit metrics.

Key rating drivers and their description

Credit strengths

Leading manufacturer of steering systems in India with strong share of business with PV OEMs – The company is the leading manufacturer of steering systems with a high share of business with several PV OEMs such as MSIL, M&M, HCIL and TKML. As a part of the Toyota Group, JIL has almost 100% share of business with TKML.

Strong parentage provides business and technical support besides benefitting the company's credit profile – JIL receives business and technical support from JTEKT. In addition, being a Japanese subsidiary supports the company's financial flexibility via access to unsecured debt from Japanese banks.

Well diversified product offerings with presence in both PV and UV segment – The company has a diverse product offering including CEPS, HPS, MSG and driveline products. It caters to PV as well as UV segments. The company has also developed an electric power steering module for off-road vehicles and tractors, which has helped it diversify its business profile.

Strengthening of the financial and business profile of the company supported by the amalgamation of JSAI – The amalgamation of JSAI has strengthened the company's financial and business profile by reducing corporate overhead costs, expanding product profile and access to the surplus cash on JSAI's balance sheet, part of which was utilised to prepay some of its existing debt.

Credit challenges

Current Covid-19 outbreak and associated slowdown in domestic PV industry to weaken financial performance over the near term –The pandemic and the ensuing nationwide lockdown is likely to lead to a relatively prolonged period of curtailed automotive demand, and consequently the financial performance of auto ancillaries, including JIL's, is also expected to be impacted in the near term.

Increasing competition in the steering systems market, especially in supplies to key customer, MSIL – JIL faces stiff competition from other steering system manufacturers such as the Rane Group, because of which it has lost business in a few key models in the recent past.

High segment concentration with ~93% of the sales coming from the PV sector, exposes the company to demand vagaries of the domestic PV market – JIL generates approximately 93% of its net sales from PV OEMs, which makes it susceptible to the cyclicality in the PV industry. The domestic automobile industry faced several headwinds during FY2020 and consequently JIL's performance was also impacted (~10.4% Y-o-Y decline in revenues in 9M FY2020). ICRA expects JIL's revenues to further contract during the current fiscal because of the outbreak of the pandemic and its subsequent impact on the demand for PVs in India.

Liquidity position: Strong

Despite expectation of moderation in cash flow generation due to the global pandemic and general slowdown in the automotive industry, JIL's liquidity position is **strong** supported by availability of unutilised working capital limits (average unutilised limit of Rs. 86.0 crore against the average drawing power of Rs. 117.1 crore during the 12-month period that ended in March 2020) and surplus cash and liquid balance of Rs. 45.6 crore as on March 31, 2020. In addition, the Japanese parentage provides it access to unsecured sanctions from Japanese banks at competitive interest rates. Against the aforementioned liquidity, the company has minimal debt repayments of Rs. 23.4 crore and moderate capex requirements of Rs. 50.0-55.0 crore in FY2021. Going forward, it is expected to meet its capex requirements and debt obligations over the near-term from internal accruals and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers – A sustained diversification of the company's segmental, product or customer mix would be favourably considered for an upgrade. Significant improvement in the company's operating metrics and debt coverage indicators, with indicators like RoCE above 22% on a sustained basis would augur well for a rating upgrade.

Negative triggers – The ratings may be revised downwards in case of significant deterioration in the profitability and credit metrics of the company on account of prolonged weakness in demand across the domestic automotive industry or due to any large debt-funded capex which impacts its credit profile adversely. In addition, any weakening of the business linkages with the parent company could also trigger a negative rating action. Specific credit metrics that could result in downgrade include Total debt/ OPBDITA above 1.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	N/A
Consolidation/Standalone	The rating is based on the consolidated financial statements of the issuer

About the company

JTEKT India Limited (erstwhile Sona Koyo Steering Systems Limited) is a leading manufacturer of steering systems and driveline products for PV OEMs in India. The company commands market leadership position in the steering system segment in India with strong share of business with OEMs including MSIL, M&M, HCIL, TKML and TML. JIL is a domestic-focused auto component manufacturer and generates almost 93% of its revenues from PV OEMs.

The entity was incorporated in 1984 by Sona Group, in a technical and financial collaboration with JTEKT Corporation, Japan. The company manufacturers the entire range of steering systems and driveline products. The key components manufactured by the company include manual as well as power steering systems, which comprise steering gears and columns. The driveline product portfolio includes case differentials, axle components, rear axle assemblies and propeller shafts. JIL supplies these products to various PV OEMs. The company's manufacturing facilities are located at Gurgaon (Haryana), Dharuhera (Haryana), Chennai and Sanand (Gujarat).

In Q4 FY2017, JIL's technology partner, JTEKT, bought out 25.12% stake from its exiting Indian partner, Sona Autocomp Holding Limited, and increased its shareholding in the company to 45.4% from 20.1%. It acquired a further 25% stake in JIL via a public open offer in Q1 FY2018. At present, JTEKT's stake in the company stands at 69.36%. The company amalgamated its subsidiary JTEKT Sona Automotive India (JSAI), with effect from Q4 FY2019. This amalgamation would help in streamlining of manufacturing operations, reducing the overall production turnaround time and providing a unified interface to customers including access to the entire steering assembly offering from a single source besides improving efficiencies and reducing costs.

Key financial indicators (audited)

Consolidated Financial Indictors	FY2018	FY2019
Operating Income (Rs. crore)	1,521.22	1,753.97
PAT (Rs. crore)	66.45	78.26
OPBDIT/OI (%)	14.02%	12.64%
RoCE (%)	15.75%	16.85%
Total Outside Liabilities/Tangible Net Worth (times)	0.90	0.78
Total Debt/OPBDIT (times)	1.20	0.91
Interest Coverage (times)	9.94	14.25
DSCR	1.81	2.49

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020		FY2019	FY2018	
					11-May-2020	6-Jun-2019	3-Jun-2019	16-Apr-2018	21-Mar-2018	22-Feb-2018
1	Cash Credit	Long Term	71.35	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
2	Term Loans	Long Term	44.91	39.48	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
3	Short-term Non-Fund based	Short Term	40.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term Fund Based	Short Term	32.50	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Long term/Short-term Fund based/Non-fund based	Long and Short Term	85.00	NA	[ICRA]AA (Stable)/ A1+	-	-	-	-	-
6	Commercial Paper	Short Term	15.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Long-term Unallocated	Long Term	30.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
8	Short-term Unallocated	Short Term	11.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
9.	Short-term Fund based/Non-fund based	Short Term	0.00	NA	-	[ICRA]A1+	-	-	-	-

*Amount in Rs. crore; * As at 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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2017	9.8%	FY2023	18.00	[ICRA]AA(Stable)
NA	Term Loan 2	FY2016	9.4%	FY2022	10.22	[ICRA]AA(Stable)
NA	Term Loan 3	FY2017	10.65%	FY2023	5.50	[ICRA]AA(Stable)
NA	Term Loan 4	FY2016	10.2%	FY2021	8.43	[ICRA]AA(Stable)
NA	Term Loan 5	FY2014	10.15%	FY2020	2.75	[ICRA]AA(Stable)
NA	Cash Credit Limits	NA	NA	NA	71.35	[ICRA]AA(Stable)
NA	Short-term fund-based limits	NA	NA	NA	32.50	[ICRA]A1+
NA	Short-term non-fund based limits	NA	NA	NA	40.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	15.00	[ICRA]A1+
NA	Long-term/ Short-term- fund based/ non-fund based	NA	NA	NA	85.00	[ICRA]AA (Stable)/ A1+
NA	Long-term Unallocated Limits	NA	NA	NA	30.00	[ICRA]AA(Stable)
NA	Short-term unallocated limits	NA	NA	NA	11.00	[ICRA]A1+

Source: JTEKT India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
JTEKT Fuji Kiko Automotive India Limited	51.00%	Full Consolidation

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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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