Jamna Auto Industries Ltd.

September 6, 2019

To,
National Stock Exchange of India Limited
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex, Bandra (E)
Mumbai - 400 051, Maharashtra
NSE Code: JAMNAAUTO

Subject: Clarification

Dear Sir,

This is with respect to an announcement submitted to the Exchange dated August 30, 2019 vide acknowledgment no. 2019/Aug/8753/9171, regarding revision in Credit Rating assigned to the Company by ICRA Limited.

As per the clarification sought from the Company by the Exchange, following are the reasons published by ICRA Limited in its letter dated August 30, 2019 for the long term downward rating:

1. Downgrade factors in expected moderation in profitability and coverage metrics of the Company in the near term following a sharp deterioration of demand prospects for commercial vehicles ("CV"), the key customer segment for the Company.
2. Change in axle load norms in 2018 led to demand contraction for commercial vehicles; the demand for goods transportations was further subdued due to slower pace of industrial activity and infrastructure creation. This, coupled with liquidity constraints faced by NBFCs, resulted in a sharp de-growth in CV sales during April-July 2019.
3. High dependence on the domestic M&HCV segment and de-growth in sales, exposes the Company to the inherent cyclicality of the industry, elongated cycle and client concentration risk leading to a downgrade in the rating.

We are enclosing herewith the letter issued by the ICRA Limited stating the detailed reasons for the downgrade rating.

Kindly take the above information on records.

Thanking you,

Yours faithfully,

For Jamna Auto Industries Limited

JAMNA AUTO INDUSTRIES LIMITED NEW DELHI

Praveen Lakhera

Company Secretary & Head-Legal

Jamna Auto Industries Limited

August 30, 2019

Jamna Auto Industries Limited: Long-term rating downgraded to [ICRA]AA- (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	85.00	85.00	[ICRA]AA- (Stable); downgraded
Long-term/Short-term: Fund based/Non-fund Based	295.00	295.00	[ICRA]AA- (Stable)/ [ICRA]A1+; long-term rating downgraded, short-term rating reaffirmed
Long-term: Fund based/Non-fund Based	130.00	130.00	[ICRA]AA- (Stable); downgraded
Long-term/Short-term: Unallocated	20.00	20.00	[ICRA]AA- (Stable)/ [ICRA]A1+; long-term rating downgraded, short-term rating reaffirmed
Total BLR	**530.00**	**530.00**	
Commercial Paper (CP)#	**270.00**	**270.00**	

*Instrument details are provided in Annexure-1

Carved out of existing working-capital limits

Rationale

The rating downgrade factors in expected moderation in profitability and coverage metrics of Jamna Auto Industries Limited (JAI) in the near term following a sharp deterioration of demand prospects for commercial vehicles, the key customer segment for the company. Pursuant to change in axle load norms in August 2018, the demand for heavy commercial vehicles (HCVs) moderated in H2 FY2019. The weakness in demand further got exacerbated during the current fiscal as anaemic industrial activity as well as a slower pace of infrastructure creation kept the demand for goods transportation subdued, which, coupled with liquidity constraints faced by NBFCs, resulted in a sharp de-growth in CV sales during April-July 2019. Weakness in HCV demand not only resulted in de-growth in sales to original equipment manufacturers (OEMs), JAI's aftermarket sales also de-grew in Q1 FY2020 as transport operators reduced or downtraded leafspring purchases, resulting in a sharp 25% de-growth in the company's net sales.

Even as the management adopted various cost control measures, the negative operating leverage weighed on the company's profitability metrics with contraction in operating and net margin during Q1 FY2020. Decline in cash accruals and elongation in receivable cycle in turn resulted in higher working capital intensity for the company reflected in higher levels of utilisation of bank limits in the past few months. With weakness in CV sales continuing to have a significant bearing on JAI's financial performance notwithstanding the management putting on hold all major capacity expansion plans[1], ICRA expects profits and cash accruals for the company to tone down sharply during the fiscal, thereby moderating the financial profile, even as the company would continue to maintain a healthy capital structure. While the management had relied

[1] *During FY2019, the management had announced a significant capacity expansion plan (~Rs. 650 crore between FY2019-22), a large part of which was discretionary and has been put on hold in line with weakness in demand for end user.*

on a significant increase in the letter of credit (LC) backed raw material sourcing during Q4 FY2019, which resulted in a below average current ratio at the end of the fiscal as well as refinancing risk, the same was corrected to an extent during Q1 FY2020, supported partly by infusion on term loans. Even as the management guided the infusion of long-term funds while limiting the use of LC-backed sourcing to improve the current ratio, ICRA would continue to monitor the company's raw material funding mix and the same would remain a key rating sensitivity.

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 exports demand. The ratings assigned also 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, competitive pricing and strategic proximity to its customers across India. The conservative capital structure, in line with the management's guidance of funding capital expenditure from internal accruals also supports the ratings.

Going forward, ICRA expects the company's profits and cash accruals to expand gradually in FY2021 in line with the recovery in demand for CVs after a sharp correction in volumes in FY2020. Notwithstanding the management's efforts to maximise operational efficiency through careful scheduling of production and minimising costs, the company's profitability indicators are likely to decline in the current fiscal with some improvement in FY2021, if there is meaningful recovery in CV volumes.

Outlook: Stable

The Stable outlook on the long-term rating reflects ICRA's expectation of a comfortable credit profile notwithstanding a deterioration in profitability and coverage indicators in FY2020. The outlook may be revised to Positive if there is a sustainable recovery in volumes that favourably impacts JAI's operating profits as well as accruals and thus, the liquidity profile. The outlook may be revised to a Negative if the volume contraction over the near-to-medium term is sharp enough to substantially weaken JAI's financial and liquidity profile. Moreover, any change in the management policy of financing raw materials through higher dependence on non-fund based limits during the fiscal and thus, the exposure to refinancing risk would also warrant a revision in outlook downwards. Further, any change in the management's stance on capex plans and their funding mix, which can adversely impact financial metrics, can also warrant a Negative outlook.

Key rating drivers

Credit strengths

Strong business position with CV OEMs – JAI is the market leader in the domestic M&HCV OEM market for leaf springs with a dominant share of its business with Tata Motors Limited (TML) and Ashok Leyland Limited (ALL), which comprise more than 80% of the M&HCV production volume in India. The company continues to strengthen its relations with the OEMs evident from increased share of business over the years, with JAI's market share increasing to 71% during Q1 FY2020 even as CV volumes declined. Moreover, with increasing contribution from higher realisation products like parabolic springs and lift axles, JAI has been able to increase its content per vehicle over the years.

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 28% in Q1 FY2020 from 9% in FY2011. Lift axle, which was launched in FY2014, contributed 6% to JAI's sales revenues during Q1 FY2020 despite the decline in revenues from the same post changes in axle load norms in August 2018. The shift in product mix has been critical over the years in substantially bringing down the break-even sales volume for the company, allowing it to withstand cyclicality in the domestic CV industry.

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. This has helped JAI 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 spring, which is the company's key product.

Comfortable credit profile reflected in healthy profitability and coverage metrics – JAI 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 is likely to deteriorate in FY2020 on account of a decline in operating profits, the overall credit profile of the company is expected to remain comfortable as the management has put all the major investment plans on hold.

Credit challenges

High dependence on CV segment exposes JAI to cyclicality associated with the industry – JAI has significant dependence on the domestic M&HCV segment, which exposes it to the inherent cyclicality of the industry. This impact was visible during Q1 FY2020 whereby the CV industry declined by 14% while JAI's operating profits de-grew by 39%. Despite the management's initiatives to develop a widespread 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.

High client and product concentration: ICRA notes that TML and ALL are JAI's major customers, together generating ~70% of its sales revenue in FY2019 with VE Commercial Vehicles Limited and Daimler India Commercial Vehicles being the other OEMs being catered by the company. Even as the company has high client concentration risk, the same is partly mitigated by the strong market position of these OEMs and JAI's healthy share of business with them as well as 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 and lift axles over the past five years, JAI's revenues have primarily been derived from leaf springs, which has resulted in high product concentration risk.

Elongation of receivable days has led to greater working capital requirement – While the management had relied on a significant increase in letter of credit (LC) backed raw material sourcing during Q4 FY2019 which had resulted in a limited drawing power and below average current ratio at the end of the fiscal, the same was corrected to an extent during Q1 FY2020 supported partly by infusion on term loans. However, an elongation of receivable days, coupled with the need to maintain inventory and moderation in cash accruals led to high utilisation of fund-based limits as percentage of drawing power in the past few months.

Liquidity Position

JAI reported stable operating cash flow generation during FY2019 at Rs. 132.4 crore and unencumbered cash balance of Rs. 19.4 crore with no term debt on its books as of March 31, 2019. While the management pursued a policy of LC-backed raw material sourcing during Q4 FY2019, which constrained its drawing power for availing fund-based limits as well as resulted in a below average current ratio at the end of the fiscal, the same was addressed during Q1 FY2020 through a change in funding mix as well as availment of term debt (repayments falling due from FY2021). The utilisation of fund-based limits (including commercial paper) for JAI (standalone) as a percentage of drawing power has been ~75% on an average over the 12 months ending June 2019. For JAI's subsidiary – Jai Suspension Systems Llp (JSS LLP), the same has been ~10% over the same period. The liquidity position is supported by the availability of undrawn term loans (Rs. 70 crore as on July 31, 2019).

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	For arriving at the ratings, ICRA has considered the consolidated financials of JAI. As on June 31, 2019, the company had two subsidiaries, which are enlisted in Annexure-2.

About the company

JAI manufactures conventional leaf springs, parabolic leaf springs, air suspensions, and lift axles predominantly for the commercial vehicle (CV) segment. With an annual manufacturing capacity of 2,50,000 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 (audited)

	FY2018	FY2019	Q1 FY2020
Operating Income (Rs. crore)	1,742.6	2,134.8	420.5
PAT (Rs. crore)	125.3	137.5	20.4
OPBDIT/OI (%)	13.9%	13.0%	10.9%
RoCE (%)	51.7%	55.7%	
Total Debt/TNW (times)	0.1	0.0	
Total Debt/OPBDIT (times)	0.3	0.0	
Interest Coverage (times)	11.9	10.1	

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating August 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2019 August 2018	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 March 2017	Date & Rating in FY2017 November 2016
1	Term Loan	Long Term	85.00	**30.00**	**[ICRA]AA- (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**	**[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 (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Positive)/ [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)**	**[ICRA]AA (Stable)**	-	-	-
4	Unallocated	Long term/ Short term	20.00		**[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+**
5	Commercial Paper	Short Term	270.00		**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**Provisional [ICRA]A1+**

**As on July 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 click here

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	Term loan	FY2020		FY2025	85.00	[ICRA]AA- (Stable)
NA	Long-term/Short-term: Fund based/Non-fund Based	NA	NA	NA	295.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Long-term: Fund based/Non-fund Based	NA	NA	NA	130.00	[ICRA]AA- (Stable)
NA	Unallocated	NA	NA	NA	20.00	[ICRA]AA- (Stable)/ [ICRA]A1+
INE039C14555	Commercial Paper	21-Jun-19	7.30%	13-Sep-19	25.00	[ICRA]A1+
INE039C14563	Commercial Paper	25-Jun-19	7.75%	20-Sep-19	20.00	[ICRA]A1+
INE039C14589	Commercial Paper	5-Jul-19	7.85%	26-Sep-19	20.00	[ICRA]A1+
INE039C14597	Commercial Paper	8-Jul-19	7.85%	17-Sep-19	20.00	[ICRA]A1+
INE039C14605	Commercial Paper	23-Jul-19	7.75%	19-Sep-19	20.00	[ICRA]A1+
INE039C14613	Commercial Paper	26-Jul-19	7.75%	11-Sep-19	15.00	[ICRA]A1+
INE039C14621	Commercial Paper	2-Aug-19	7.65%	6-Sep-19	20.00	[ICRA]A1+
NA	Commercial Paper	Yet to be placed	NA	NA	130.00	[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

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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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