

Harman International India Private Limited

July 04, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	200.00 (Enhanced from 15.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total bank facilities	200.00 (₹ Two hundred crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Harman International India Private Limited (Harman India) reflects the strong parentage and linkages with Harman International Industries Inc (Harman US), a leading player in the connected car (CC) technology, audio and lighting solutions in the global market and a subsidiary of Samsung Electronics Co Limited (Samsung). Harman India is the extension of Harman US business in India which is one of the strategically important geographies considering the vast opportunity of high-end infotainment systems in automobile and strong growth prospects of consumer audio segment. Harman India's financial risk profile is robust with consistent improvement in scale of operations, healthy returns and debt coverage indicators along with strong capital structure. Harman India is also linked with parent in terms of common suppliers and offering of engineering & designing services for its global operations.

The rating, however, is constrained by its volatile profitability margins, highly competitive landscape in its various business segments and exposure of CC segment to cyclicalities in the auto industry. Continuance of strategic importance of Harman India to Harman US/ Samsung would be key to its prospects while any weakening in linkages would weigh negatively on Harman India's credit profile.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in scale of business, market position and sustaining PBILDT margin of above 20%

Negative factors – Factors that could lead to negative rating action/downgrade:

- RoCE below 20%
- Deterioration in liquidity profile of the company
- Significant weakening of linkages with the parent or deterioration in the credit profile of its parent

Detailed description of the key rating drivers

Key rating strengths

Strong parentage of Samsung/ Harman US group: Harman India is a wholly-owned subsidiary of Harman US. Harman US is a Connecticut-based manufacturer with US\$ 9 bn business of audio systems, automotive infotainment systems, lifestyle products, and connectivity solutions provider. It is counted among top brands globally with majority of the revenue being derived from the automotive business and has contracts from some of the leading automotive original equipment manufacturers (OEMs). It operates in more than 30 countries, spread across geographies such as US, Europe, Asia Pacific, the Middle East, and Australia. In March 2017, Samsung acquired Harman US. Samsung Electronics, a US\$ 250 bn company is headquartered in Suwon, Korea, and is a global leader in the memory semiconductor, mobile handset and flat-panel TV markets.

Synergy of Harman India with Harman International/ Samsung: The entire material sourcing with respect to Lifestyle (LS), CC and Professional (PRO) segments is done through globally nominated suppliers, ensuring uniform product quality across the globe. Similarly, design/ software business is also primarily carried out by Indian entities (Harman India and its associate, Harman Connected Services). Furthermore, due to production constraints at one of the overseas plants of Harman US, business of one of OEMs is routed to the Indian unit. However, in terms of distribution network in LS segment, Harman India operates separately from Samsung. Harman India has its own distribution network of its LS products and does not leverage upon Samsung's network. Bundling of the company's LS products with Samsung's phones are being explored. Harman India brands its products as 'Harman; a Samsung company'.

Established brands in various business segments and market position: Harman India has four major business segments namely: LS, India Development Centre (Software division; IDC), CC, and PRO. LS is consumer audio division which deals in retailing of headphones, earphones, blue-tooth speakers, sound bars, car audio etc. Some of the brands are JBL, Infinity, Harman Kardon, etc. JBL is the most promising brand of Harman globally and is counted among the top three brands while India is the fastest-growing market of Harman. PRO segment deals in an extensive range of loudspeakers, power amplifiers, digital signal processors, microphones, headphones, and mixing consoles used by audio professionals in concert halls, stadiums and other public places. The business has picked up in FY22 after a largely stagnant FY21 which was impacted by COVID-19 as cinema halls, concerts were closed to contain the spread of pandemic. CC segment is engaged in

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manufacturing of infotainment systems and telematic solutions (head units) for automotive OEMs at its plant in Chakan, Pune. Globally, Harman's CC business is around US\$ 4bn and is among top three players. However, the similar success is yet to be replicated in the Indian market which is gradually adopting advanced infotainment technology. The IDC segment provides software development services only to its group entities. It operates on cost-plus model. This segment has earned relatively stable profits for Harman India.

Strong financial risk profile: The company's financial risk profile is marked by consistent increase in scale of operations, volatile PBDIT margins, but limited reliance on external borrowings and strong return & liquidity indicators. Increase in scale of operations in FY22 was primarily driven by growth in CC segment. The revenue has gone up from ₹2,574 crore in FY21 to ₹3,167 crore in FY22, registering a top line growth of 20% during the period. Increase in scale of operations was primarily driven by growth in CC segment. In line with revenue growth, GCA also increased from ₹263 crore in FY21 from to ₹364 crore in FY22. Owing to healthy cash accruals, the company's reliance on external borrowings have been minimal. The overall gearing stood 0.39x as of March 31, 2022 as against 0.16x as of March 31, 2021. Increase in the overall gearing was primarily due to increase of lease liabilities arising out of shifting of offices to new premises. This also explains slight moderation in interest coverage in FY22.

Key rating weaknesses

Volatile profitability margins in a highly competitive landscape: The company's PAT margins have been volatile due to its presence in a highly-competitive environment. The LS segment is an over-crowded segment with presence of several organised and unorganised companies. With ever-evolving consumer preferences in this segment, the company is required to keep updating its products too. Profitability margins in the LS segment has moderated y-o-y due to the same. The CC segment's profitability margins have improvement consistently backed by increase in the number of models where products are being supplied to and routing of business of one of OEMs through Indian unit owing to production constraints at one of the overseas plants of Harman US. The PRO business has picked up in FY22 after a largely stagnant FY21 which was impacted by COVID-19 as cinema halls and concerts were closed to contain the spread of pandemic. The IDC business is a relatively stable-margin business, but margins are dependent upon consistent assignment of global projects to India.

Liquidity: Strong

The company's liquidity is driven by financial flexibility from being part of Harman International thereby enjoying strong market position in the segments in which it operates. The company's operations being diversified in nature helps it in maintaining consistent growth and profitability, translating into healthy cash accruals over the years. The company does not have external term debt and future capex is also expected to be funded out of internal cash generation. The company had high unencumbered cash and bank balance of ₹225 crore as on March 31, 2022.

Analytical approach

Standalone factoring in strong promoters and linkages with the group's international operations.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non-financial sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating outlook and Credit watch](#)

[Auto ancillary companies](#)

[Wholesale trading](#)

About the company

Harman International India Pvt Ltd (Harman India), incorporated in 2009, is a wholly-owned subsidiary of Harman International Industries Inc., USA, which in turn is a wholly-owned subsidiary of Samsung Electronics. Harman India primarily operates in four business segments:

- a) **LS:** The LS segment offers an extensive range of consumer audio and electronic products for home, vehicle, portable and computer application. The products are sold to customers under various brand names viz. JBL, Harman Kardon, Infinity etc.
- b) **PRO:** The segment deals in institutional sales of loudspeakers, power amplifiers, microphones etc. used by audio professionals in concert halls, stadiums and other public areas.
- c) **CC:** Manufacturing of infotainment systems for vehicles to be installed primarily as original equipment by automotive OEMs. Major customers include Maruti Suzuki India Limited, Tata Motors and exports to Daimler. Also engaged in manufacturing and sale of telematics solutions.
- d) **IDC:** Provides software development services to its group entities.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23
Total operating income	2,573.58	3,167.04	NA
PBILD	358.11	473.43	NA
PAT	175.47	235.59	NA
Overall gearing (times)*	0.16	0.39	NA
Interest coverage (times)*	24.80	17.80	NA

A: Audited, P: Provisional, NA: Not applicable *including lease liabilities

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital limits	-	-	-	-	200.00	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working capital limits	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Apr-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities – Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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