Igarashi Motors India Limited

March 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	25.54 (Reduced from 39.99)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	60.00 (Enhanced from 50.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	68.00 (Enhanced from 48.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Igarashi Motors India Limited (IMIL) continue to derive strength from its long operational track record with strong market position in the automotive motors industry, management team with experienced personnel, coupled with strong relationship with reputed clients; albeit, with high sales concentration. The ratings also factor in the company's efforts for de-risking segment concentration risk through increasing share of Brushless DC (BLDC) motors and its comfortable capital structure and adequate liquidity position.

The ratings are, however constrained by the moderation in the operational performance of the company during FY22 (refers to the period April 01 to March 31) and 9MFY23 (UA) resulting in deterioration in the profitability margins and debt coverage indicators, and susceptibility of margins to the raw material price fluctuation and foreign currency fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors:

- Ability to grow its scale of operations beyond ₹1,000 crore with a more diversified product profile and end-use applications
- Increase in PBILDT margin and ROCE above 15% on a sustained basis
- Sustenance of low gearing and total debt to PBILDT below 1 times

Negative Factors:

- Any significant drop in the overall sales volumes and PBILDT margins remaining less than 12% on a sustained basis
- Any large capital expenditure plans leading to a deterioration in leverage with overall gearing exceeding 0.5x

Analytical approach: Standalone

Outlook: Stable

The Stable outlook assigned to the long-term ratings of IMIL is due to expectations that there will be improved diversification of its products, customers and geographies in the medium term. Also, with gradual normalisation of the situation and price reset with its customers, its operating profitability should steadily improve going forward.

Key strengths

Experienced management team & long track record of operations: IMIL has well-established operations with a long track record of more than two decades. Started as a contract manufacturer in 1996, the company had ventured into the design and development of critical automotive applications since 2000. IMIL has spent significant resources in the development of an actuator motor, a type of DC motor, for the Electronic Throttle Control (ETC) application. IMIL has a presence in Tier 2, Tier 3 and Tier 4 of auto business, with vertically integrated operations in a single company. The Igarashi group of Japan- a global player in DC motors along with its subsidiaries holds the majority stake in IMIL and the operations in India are overseen by a professional board with Mr. Hemant M Nerurkar, as the Chairman of the board. Hemant M Nerurkar is an industry veteran having worked in the auto

[1] Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

sector for long. The day-to-day operations of IMIL are managed by R. Chandrasekaran, who is the Managing Director and CEO of the company.

Strong relationship with reputed clients; albeit, with high sales concentration: IMIL is primarily engaged in the production and sale of permanent magnet DC motors and its sub-assemblies, seat applications and motor accessories mainly for the automotive sector specifically for passenger cars. The company has been supplying these motors to Tier-I suppliers of leading automobile manufacturers in the world. Most of the products manufactured are exported and exports contribute 70% of sales in FY22 (PY: 82%). IMIL derives the majority of its revenues from a few large clients, which in turn supply to multiple OEMs across the globe. IMIL's income stability and order book position depends heavily on the orders from these large customers. However, the company has a long-standing relationship with these clients and forms an important part of their global supply chain. Hence, the client concentration risk is mitigated to an extent. Furthermore, due to the critical application of the products manufactured by IMIL, the risk of the customers switching over to the competitors is very minimal. Also, the company is a full-service supplier and vertically integrated to customize the products according to client's requirements. Through such advantages along with cost-effectiveness by way of operating in India, IMIL to an extent ensures stable customer and revenue profile in the long term despite high sales concentration to these clients.

De-risking segment concentration: While the company started with the supply of DC motors for the Internal Combustion Engines (ICE) and that continues to remain the mainstay of the business, the company has consciously moved to other applications and developed other DC motor versions which are engine technology-neutral and find application in electric vehicles as well. IMIL also sells motor sub-assemblies like armature assembly for the automotive sector. Further to de-risk from the automotive applications, the company launched BLDC motors for application in the consumer durable segment like ceiling and pedestal fans given the long-standing association of its top management with the sector. The BLDC motors have varied applications and the company has a capacity of 1 million units. BLDC motors are smaller in size, more efficient, noiseless and generate higher ranges of speed when compared to a brush motor. The company has commenced sale of BLDC motors from FY20 onwards for a key client and is gradually expected to scaled-up volumes. The volume of sales in this segment is expected to go up further. Apart from this, the company has undertaken R&D for EV, 2-wheeler and 3-wheeler applications.

Comfortable capital structure: The capital structure of the company remained strong characterized by its comfortable overall gearing ratio. The overall gearing ratio stood comfortable at 0.26x as on March 31, 2022 (PY: 0.24). The improvement in capital structure over a period of time was on the back of accretion of profits to the net-worth along-with marginal reduction in its debt level. Though the capital structure of the company is expected to moderate in the medium term because of the increased reliance of operations on the working capital borrowings (to fund the expected increase in scale), the same is expected to remain at a comfortable level.

Liquidity: Adequate

IMIL has a term debt repayment obligation of ₹14.22 cr in FY23 and ₹12.50 cr in FY24, which is expected to be met comfortably through its internal accruals. It has already generated cash accruals of ₹33 crore in 9MFY23 (UA). The company had free cash and unencumbered liquid investments of ₹30 crore, as on December 31, 2022, which also provides comfort to the overall liquidity profile. The company has planned maintenance capex of around around ₹28 crore in FY23 and ₹13 crore (regular and growth capex) in FY24, which is planned to be funded through internal accruals of the company. Out of the total capex proposed in FY23, the company has already incurred ₹25 crore by December 31, 2022. With an overall gearing of 0.23x times as of December 31, 2022, the company has adequate headroom available to raise additional debt, if required. The average fund-based working capital limit utilisation also remained at a comfortable level of around 49% during the 12-month period ended December 2022. The current ratio of the company stood at 1.55 on March 31, 2022.

Key weaknesses

Subdued operational performance resulting in moderation in the profitability margins and debt coverage indicators: The total volume sold by the company declined by around 7% in FY22, on a year-on-year basis. The same was on account of the Covid-19 led disruptions in various geographies. The decline in quantity sold was however offset by the increase in price realisations (mainly passing on of the increased raw material prices) which led to an increase of around 3.87% in the total operating income during the year. The PBILDT margins of the company moderated considerably from 15.15% in FY21 to 9.12% in FY22 mainly on the back of significant & sudden increase in the prices of major raw materials like Steel & Copper. The PBILDT margins of the company have been on a downtrend for the last few years, declining from around 27% achieved in FY18, owing to various reasons like addition of new products (relatively lower margins giving), increase in input cost and

disruptions caused by the Covid-19 pandemic resulting in low-capacity utilisations. The same resulted in moderation in the debt coverage indicators (though remained at a satisfactory level), with the Interest coverage ratio deteriorating to 7.81x (11.91x) and Total debt/ PBILDT to 2.21x in FY22 (PY: 1.28x).
During 9MFY23, the company has reported a total operating income of ₹488.01 crore, which increased by around 15 %, compared to the operating income achieved in the same period last year. The PBILDT margin of the company further deteriorated to 8.85% during the period, compared to 10.52% achieved in the same period last year. The margins during 9MFY23 were impacted due to the disruption in operations in China because of the COVID-19 pandemic, especially in the first half of the year. IMIL procures a significant part of its raw materials (for its nonautomotive segment) from China and on account of disruptions in the supply chain, the company had to resort to local sources for procurement of the same which resulted in high input costs. However, the PBILDT margins have witnessed an improvement on a sequential basis from 5.70% in Q1FY23 (UA) to 9.14% in Q2FY23 (UA) and further to 11.19% in Q3FY23 (UA).

Susceptibility of margins to raw material price fluctuation and foreign currency fluctuation risk: Raw material costs as a proportion of total operating income for FY22 stood at 67% (PY: 61%). The major raw materials used by the company are Steel and Copper, where prices are highly volatile in nature. In order to insulate itself from any price increase, IMIL generally draws up an annual price contract with all its clients with a built-in price escalation clause in case of the raw material price increase. However, while any changes in the raw material prices are passed on to the clients, there is a lag effect in the same which may impact the profitability. The company imports most of its raw materials (around 67%), with major source nations being Singapore, Japan and China. While steel is mainly imported from Japan and Singapore, Copper is procured domestically. The prices of the two major raw materials saw a sudden and significant increase during FY22 which could not be completely passed on to the customers by the company.
With majority of its raw materials imported (around 67%), IMIL also faces foreign currency risk. However, as the company exports most of its products, it has a natural hedge. IMIL also hedges a portion of its unhedged foreign currency exposure by entering into forward contracts.

Industry Prospects: The domestic passenger vehicle industry is likely to end the year 2022-23 with record sales of over 4.2 million units on the back of pent-up demand amidst preference for personal mobility post COVID-19, improvement in supply chains and rising income levels amongst employees working in the Indian corporate sector. However, with the rise in interest rates and manufacturers hiking prices, the pent-up demand is likely to fade in the medium term. Overseas demand for passenger vehicles is also expected to moderate as global economic slowdown is likely to impact exports. However, large orderbook of OEMs, improvement in supply chains and new model launches is expected to ensure that the industry's sales growth remain positive. The global automotive actuators market is estimated to reach USD 37 billion in FY32 registering a Compound Annual Growth Rate (CAGR) of 5.5% over CY 2022-32 owing to Government regulations on emission control and other technological advancements and newer applications of automotive actuators. Growth in the automotive actuators market is also likely to be driven by increasing demand for electrification of actuators for the drivetrain, comfort and body systems. Early adoption of EV mobility in public transport, commercial usage, and two-wheeler space is currently being envisaged.

Apart from that the company is also supplying motors in the non-auto segment (BLDC motors) which are majorly consumed in the consumer durable section. The Indian consumer durable market is expected to continue the growth trend on the back of increasing population, increase in disposable income and rising urbanization.

Applicable criteria

Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities

About the company and industry Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

IMIL was originally incorporated as CG Igarashi Motors Limited in January 1992 as a JV between Crompton Greaves Limited (CGL), India, Igarashi Electric Works Limited (IEWL), Japan and International Components Corporation (ICC), USA. Over the years the shareholding pattern has undergone multiple changes and as on December 31, 2022, Agile Electric Sub-Assembly Private Limited (AESPL), Igarashi Electric Works H.K. Ltd and Igarashi Electric Works Limited (Japan) together holds 75% of the stake in the company. IMIL is primarily engaged in the production and sale of permanent magnet DC motors and its sub-assemblies, seat applications and motor accessories mainly for automotive sector specifically for passenger cars. To de-risk the business from being entirely automotive, the company has developed the BLDC motors which is used in consumer applications like fans and has started supplying to customers from FY20 onwards. The company's manufacturing facilities are based out of Chennai, Tamil Nadu.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	540.25	561.20	488.01
PBILDT	81.85	51.20	43.19
PAT	25.62	1.19	(2.39)
Overall gearing (times)	0.24	0.26	0.23
Interest coverage (times)	11.91	7.81	4.82

A: Audited; UA: Unaudited

Note: 'the above results are latest financial results available'

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ STWorking Capital Limits		-	-	-	60.00	CARE A+; Stable / CARE A1+
Fund-based - ST-EPC/PSC		-	-	-	68.00	CARE A1+
Term Loan-Long Term		-	-	Dec 2023	25.54	CARE A+; Stable

Annexure-2: Rating history for the last three years

		Current Ratings			Rating History			
Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 20222023	Date(s) and Rating(s) assigned in 20212022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 20192020
1	Fund-based - ST-EPC/PSC	ST	68.00	CARE A1+	-	1)CARE A1+ (21-Dec-21)	1)CARE A1+ (12-Mar-21)	1)CARE A1+ (13-Mar-20) 2)CARE A1+ (02-Apr-19)
2	Term Loan-Long Term	LT	25.54	CARE A+; Stable	-	1)CARE A+; Stable (21-Dec-21)	1)CARE A+; Stable (12-Mar-21)	1)CARE A+; Stable (13-Mar-20) 2)CARE A+; Stable (02-Apr-19)
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	60.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (21-Dec-21)	1)CARE A+; Stable / CARE A1+ (12-Mar-21)	1)CARE A+; Stable / CARE A1+ (13-Mar-20) 2)CARE A+; Stable / CARE A1+ (02-Apr-19)
4	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (12-Mar-21)	1)CARE A1+ (13-Mar-20) 2)CARE A1+ (02-Apr-19)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based – LT/ST- Working Capital Limits	Simple
3	Fund-based – ST- EPC/PSC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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