Flash Electronics (India) Private Limited

March 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	130.68 (Reduced from 155.68)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	25.00	CARE A-; Negative / CARE A2 (Single A Minus ; Outlook: Negative/ A Two)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	25.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**180.68 (Rs. One Hundred Eighty Crore and Sixty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank loan facilities of Flash Electronics (India) Private Limited continue to benefit from the experienced promoters and established track record, strategic location of its manufacturing facilities, diversified product portfolio and long-standing relationship with Bajaj Auto Limited (BAL) as a Tier-I supplier of auto components leading to moderately large scale of operations. These strengths are partially tempered by customer and sector concentration risk, moderate profitability marked by suboptimal capacity utilization and extent and lag in pass through mechanism of fluctuations in the raw material prices. Further, due to large debt funded capital expenditure (capex) in the recent past, the company has leveraged capital structure and below average debt coverage metrics.

Rating Sensitivities

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

- Significant scaling up of operations and/or profitability leading to substantial rise in gross cash accrual (GCA) to more than Rs.100 crore on a sustained basis.
- Sustained improvement in the debt coverage indicators with PBILDT interest coverage above 5x and total debt to GCAs lower than 2x
- Strengthening of the capital structure going forward with overall gearing (on gross debt basis) of below 1.00x on a sustained basis.

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

- Any un-envisaged debt programme leading to deterioration in the capital structure i.e. overall gearing more than 2.25x going forward.
- Lower than expected improvement in turnover and/or profitability leading to GCA below Rs.75 crore on a sustained basis.
- Delay in deleveraging program from its envisaged timeline leading to adverse impact on financial risk profile, particularly liquidity.
- Significant deterioration in liquidity position.

Outlook: Negative

Revision in the outlook from 'Stable' to 'Negative' considers continued leveraged capital structure and below average debt coverage metrics against CARE's expectations. Despite, the sale of assets of its foreign subsidiary and leasing back the same, the company on a consolidated basis posted incremental gross debt in FY21 ending. Resultantly, its debt coverage metrics i.e. interest coverage and total debt by PBILDT, continued to remain weaker against previous expectation. Also, though the net debt reduced modestly as on FY21 ending, incremental net debt was observed as on December 31, 2021. Further, there has been delay in deleveraging program as earlier expected in FY22, leading to significantly higher than expected debt in FY22. Any delay from the estimated timeline in deleveraging; can impact the liquidity of the company and will remain key monitorable. Further, significantly lower than expected gross cash accrual may also impact the liquidity adversely.

The outlook may be revised to 'Stable' in case of significant deleveraging and sustained improvement in GCA from operations (excluding gain on sale of asset) leading to improvement in debt coverage metrics and liquidity, particularly cushion between GCA from operations and repayment obligations.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of the company: The promoters of FEIPL (Vasdev and Kathuria family) have more than two decades of experience in manufacturing of automotive components. The Founder, Mr. Sanjeev Vasdev

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

(Chairman and Managing Director), has an experience of over 25 years in the automobile sector. Mr. Kathuria, is an engineering graduate from IIT Delhi and heads the Research and Development division at FEIPL. Over the years, the company has established healthy relationships with its customers, particularly Bajaj Auto Limited (BAL), leading to significant scaling up of operations over the years and may continue to support the company over the medium term.

Strategic location of manufacturing facilities: Manufacturing facilities established in domestic market are established in key auto clusters in India i.e. Pune (Chakan) and Haryana (Faridabad). The plants are located in close proximity of its key customer BAL. Further, the company's foreign manufacturing units has helped the company in establishing relationships with marquee clients and access to intellectual capital and technical collaboration leading to product development in key areas like fuel injection system based components, Electric Vehicle (EV) components, etc.

Diversified product portfolio: FEIPL operates across 5 product groups i.e. Electricals & Electronics, Fuel Injection System, Metallics, Engine Components and EV components having 150+ products in its portfolio. These products are majorly targeted towards two-wheeler (2W) and three-wheeler (3W) segment. Further, the company has been regularly investing in research and development over the years along with various technical collaboration leading to development of products adhering to changing regulations and targeting transition from internal combustion engine (ICE) to EV over the long term. This has led to company moving up significantly in the value chain, particularly in EV segment.

Moderately large scale of operations supported by longstanding relationship with BAL: Over the years, the company's scale of operations has grown to moderately large level supported by its longstanding relationship with BAL and large capex undertaken in the recent past. It has also benefited from acquisition of foreign subsidiary and addition of new clients. The company registered modest year on year growth in total operating income (TOI) in FY21 to Rs.846.27 crore from Rs.816.52 crore particularly due to operational restrictions due to COVID-19 lockdowns. Ramp up in forging and machining capacities has led to estimated growth in revenue in FY22 at about ~Rs.1000 crore with company already achieving Rs.765 crore in 9MFY22. Going forward, the company is also expected to ramp up its EV segment which along with other programs committed for customers which are currently running sub optimally are expected to lead to moderate revenue growth over the medium term.

Key Rating Weaknesses

Customer and sector concentration risk: FEIPL's net sales from BAL stood constant at ~52% during FY21 as against ~55% during FY20 reflecting continued customer concentration risk. The company has added various marquee clients over the years, yet majority of the revenue is derived from BAL and the same may rise in the future with expected supply of EV components to cater BAL's EV program. However, this is partly mitigated by longstanding relationship which has led to repeated orders and its moderately large scale of operations.

Moderate profitability marked by suboptimal capacity utilization: The company's profitability has been moderate with PBILDT margin of 9.86% in FY21, with modest dip of around 20 bps compared to FY20. Over the recent years, the margins have remained moderate majorly on account of suboptimal capacity utilization in the machining and forging division. The forging division dragged the profitability margin till FY20 which turned around in FY21. Whereas the manufacturing activity in FVMT i.e. machined components, is yet to achieve PBT level profitability. Many of the programs for new products/clients have not fully ramped up and hence registered modest profitability. Improvement has been observed in 9MFY22 wherein the company has reported consolidated PBILDT margins of 11.80%. Accordingly, the company's profitability is estimated to improve to 11.5%-11.6% in FY22 and resultantly GCA from operations. Further, going forward, with higher capacity utilization in metallics division and EV components wherein the operating margins are higher once the optimal volumes are produced, the PBILDT margins are expected to rise to atleast 14%.

***Extent and lag in pass through mechanism of fluctuations in the raw material prices*:** The primary raw material required by FEIPL is cores, coils, and other electronic components. Cores are made of steel, and other materials while coils are predominantly made from copper. FEIPL is exposed to risks arising out of fluctuation of prices of these inputs. However, the same has been largely mitigated by executing pass through arrangement with BAL for major raw material components (Aluminum and copper). However, the extent and lag in the pass through may impact the profitability margin temporarily.

Leveraged capital structure and below average debt coverage metrics: The company's networth is moderate at Rs.210.94 crore as on March 31, 2021 rising from Rs.147.49 crore a year ago. Though, the networth improved in FY21 on the back of asset monetization of foreign subsidiary's property; it has been partly subdued by modest PAT losses over the recent years. However, the large debt borrowed by the company to support majorly capex over the past 5 years through FY21 led to leveraged capital structure. The overall gearing strengthened from 2.68x as on March 31, 2020 to 2.13x as on March 31, 2021 supported majorly by increase in networth. The company repaid a significant amount of term loan of Rs.111.10 crore supported by proceeds from asset monetization of German subsidiary asset in FY21 while raised fresh term loans of Rs.151.36 crore which majorly includes working capital term loan of under ECGLS/COVID loans. Though, the net debt reduced from Rs.356.84 crore as on March 31, 2020 to Rs.330.14 crore as on March 31, 2021 with significant built of cash & cash equivalents (Rs.86.80 crore as on March 31, 2021); the net debt again increased to Rs.348.60 crore as on December 31, 2021 due to usage of cash in working capital and capex requirements. This is further estimated to strengthen to around 1.60x as on March 31, 2022. The company is expected to undertake further deleveraging program by Q2FY23.

The debt coverage metric has been weak over the years due to large debt availed, moderate profitability and relatively high interest costs. The PBILDT interest coverage was 1.73x (1.59x) and total debt to PBILDT was 5.11x (4.71x) in FY21 (FY20). With improvement in the turnover and operating margins, the debt coverage metrics are estimated to improve in FY22 yet may remain below average.

Liquidity: Adequate – The company's liquidity is adequate supported by expected moderate cushion between GCA and repayment obligation, moderately low fund-based utilization and healthy cash and cash equivalents. FEIPL's GCA from operations has been modest over the recent past. However, the company is estimated to generate GCA of about Rs.60 crore in FY22 against repayment obligation of Rs.48 crore. In FY23, the company is expected to generate significant funds from its sale and leaseback of its subsidiary assets which are expected to be utilized to prepay term loans of about Rs.90 crore apart from the scheduled repayments. FEIPL has moderately low cash credit utilization with average of maximum utilization over the past 12 months through December 2021 at 51.48%. It had free cash and cash equivalents of Rs.86.80 crore at consolidated level (Rs.43.03 crore at standalone level) as on March 31, 2021 which has reduced to Rs.38.2 crore by December 31, 2021 (Rs.28.7 crore at standalone level). The company has moderately leveraged capital structure estimated at 1.96x as on March 31, 2021 which limits the headroom to raise fresh debt to fund additional capex or incremental working capital limits.

Analytical approach: Consolidated
CARE has considered consolidated financials which includes FEIPL and its subsidiaries, on account of common promoters, similar line of business, inter-company transactions and exposure of FEIPL to group companies in terms of corporate guarantee. Furthermore, the group is engaged into automotive component manufacturing across various geographies. As a result of common promoters, similar line of business and inter-company transactions, consolidated view has been considered. The details of the subsidiary which has been consolidated is given as Annexure - 4 below.

Applicable Criteria
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies

About the Company
FEIPL, incorporated on October 26, 1989 is engaged in the manufacturing of automotive electrical and electronics products primarily for two and three wheelers. The company was founded by Mr. Sanjeev Vasdev and is currently spearheaded by him in the capacity of Chairman and Managing Director (CMD). FEIPL is engaged in the manufacturing of A.C. Generators/magnetos assemblies, starter motors for two and three wheeler, Electronic Energy Meters, auto engineering components and other electrical and electronic components. FEIPL as on date has six manufacturing units out of which two units are located in Faridabad, Haryana; two unit is at Chakan, Pune, Maharashtra; one in Germany and one in Hungary.

Brief Financials (Rs. crore) – Consolidated	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	816.52	846.27	765.5
PBILDT	82.08	87.45	90.3
PAT	-9.45	65.46	13.8
Overall gearing (times)*	2.62	2.02	NA
Interest coverage (times)	1.60	1.81	2.17

A: Audited; UA: Un-Audited
**Overall gearing includes Creditors backed by letter of credit.*

Brief Financials (Rs. crore) - Standalone	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	576.55	612.54	567.5
PBILDT	57.91	70.11	70.9
PAT	4.27	25.48	23.4
Overall gearing (times)*	0.97	1.06	NA
Interest coverage (times)	1.89	3.00	2.89

A: Audited; UA: Un-Audited
**Overall gearing includes Creditors backed by letter of credit.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2028	89.68	CARE A-; Negative
Fund-based - LT-Cash Credit	-	-	-	-	41.00	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	-	25.00	CARE A2
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	25.00	CARE A-; Negative / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	89.68	CARE A-; Negative	-	1)CARE A-; Stable (30-Mar-21) 2)CARE A-; Negative (17-Sep-20) 3)CARE A-; Negative (01-Jul-20)	1)CARE A-; Negative (17-Mar-20)	1)CARE A-; Negative (13-Mar-19)
2	Fund-based - LT-Cash Credit	LT	41.00	CARE A-; Negative	-	1)CARE A-; Stable (30-Mar-21) 2)CARE A-; Negative (17-Sep-20) 3)CARE A-; Negative (01-Jul-20)	1)CARE A-; Negative (17-Mar-20)	1)CARE A-; Negative (13-Mar-19)
3	Non-fund-based - ST-BG/LC	ST	25.00	CARE A2	-	1)CARE A2 (30-Mar-21) 2)CARE A2 (17-Sep-20) 3)CARE A2 (01-Jul-20)	1)CARE A2 (17-Mar-20)	1)CARE A2 (13-Mar-19)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	25.00	CARE A-; Negative / CARE A2				

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure - 4: List of Subsidiaries consolidated

Name of the subsidiary	Remarks
Flash Viven Machining Technologies Private Limited	Wholly owned Subsidiary
Flash Holding GmbH	Wholly owned Subsidiary
Bing Power System GmbH, Germany	Wholly owned step down Subsidiary
Bing Power Origin Kft, Hungary	Subsidiary of Bing Power System GmbH

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 instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Monika Goenka
Contact no.: 8879300881
Email ID: monika.goenka@careedge.in

Relationship Contact
Name: Aakash Jain
Contact no.: +91-20-4000 9090/8106400001
Email ID: aakash.jain@careedge.in

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