Hitachi Astemo Brake Systems India Private Limited
(Formerly known as Foundation Brake Manufacturing Private Limited)

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE BBB+ (Is); Stable [Triple B Plus (Issuer Rating); Outlook: Stable]	Reaffirmed
Total	**0.00**		

Details of instruments/facilities in Annexure-1

@ The Issuer Rating would be subject to overall gearing not exceeding 0.06x (expected level as on March 31, 2023)

Detailed Rationale & Key Rating Drivers

The reaffirmation on the issuer rating of HAIPL takes into account its strong parentage being a part of the Hitachi Group and improvement in total operating income (TOI) during 11MFY22 (FY refers to the period April 01 to March 31) along with sustained operating profit however witnessed moderation in FY21. The rating further continues to be strengthened by HAIPL's reputed clientele base, comfortable collection period, debt free books and strong liquidity position. CARE also notes, HAIPL's noticeable presence in domestic auto ancillary market.

The rating strengths, however, are constrained by continued net losses and thin margins on account of high rebilling expenses, client concentration, volatility in raw material prices and presence in highly fragmented and competitive auto component industry.

Rating Sensitivities

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

- Sustained growth in TOI beyond Rs.800 crore along with profits at net level
- Sustained improvement in PBILDT margins above 9% led by improving operating leverages.

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

- Any un-envisaged debt funded capital expenditure deteriorating overall gearing levels beyond 0.10x
- Sustained deterioration in the profitability with PBILDT margin below 2%.
- Weakening of linkages and credit profile of the company

Detailed description of the key rating drivers

Key Rating Strengths

- **Strong parentage and management**: HAIPL is a whole owned subsidiary Hitachi Astemo Netherlands B.V., which in turn is a 100% subsidiary of Hitachi Astemo Limited. The latter is wholly owned subsidiary of Hitachi Limited (ultimate parent) since October 2019. The Board of Directors comprises of a strong team with Mr. Anil Khandekar, Managing Director (MD), who is a Mechanical Engineer having more than 30 years of experience in automotive industry and Mr. M. P. Raajha, Vice President (VP) Sales, Marketing and Engineering, who is an Engineer from Indian Institute of Technology (Madras). Mr. Raajha has 25 years of experience in the brake industry. Mr. Harish Seth (CFO) is a Chartered Accountant and has 29 years of experience in finance, telecom, metals, and automotive industries. This apart, the company is backed by a strong and experienced workforce.
- **Reputed clientele:** The company shares long and strong relationship with the key players of automotive industry. Association with strong counter parties reduces risk of delay in collections. As a result, the company had a comfortable collection period of 45 days in FY21 which was similar to the past fiscals. HAIPL is able to garner repeat orders every year, aided by its long-standing association with these reputed clienteles. One of the largest industry player is the key revenue driver contributing close to 25-30% to the TOI of HAIPL. The company also has a dedicated manufacturing facility at Manesar, Haryana for the said clientele.
- **Debt free capital structure**: HAIPL has maintained debt free status since incorporation and all the capital expenditure and working capital requirements are funded through internal accruals, thereby maintaining a healthy capital structure. Any un-envisaged debt funded capex thereby deteriorating the capital structure would be the key rating monitorable.
- **Improvement in scale during 11MFY22 however witnessed moderation in FY21:** During FY21, the income witnessed significant decline by 16% year on year on account of low off take/ demand from OEMs during covid restrictions and subsequent lockdowns in Q1-Q2FY21. Decline in TOI resulting in lower coverage of overheads has resulted into lower profitability during FY21. In addition, high re-billing expenses is further exerting pressure on the margins of the company. Hence, during FY21, the PBILDT margin further came down to 1.27% compared to 2.09% in FY20. However, during 11MFY22, the scale of operations has improved to Rs.727.89crore from Rs. 663.82crore in FY21 with sustained profit levels. The PBILDT margin continued to remain thin close to 1.74% on account of high re-billing expenses coupled with fluctuation in raw material prices however expected to settle close to 2% for FY22 with TOI reaching to Rs.800crore. Improvement in scale during 11MFY22 is driven by recovery in auto sector lead by improved economic activities post second wave of covid-19.

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

Key Rating Weaknesses

- **High Re-billing expenses leading to lower operating margins**: Hitachi group has entered into a 'Service Agreement' and 'Application Service Agreement' with HAIPL for rendering services such as assistance in marketing, human resource management, financial and legal matters along with providing software application support services. The Group has a good knowledge and great experience in the provision of aforesaid services and also renders such services to its other group companies. The cost for the same is incurred at group level and then is allocated to all group companies, including HAIPL on the basis of key indicators such as revenue, no. of users, etc. During FY21, these re-billing expenses accounted for 7.15% of total cost of sales which traditionally has remained similar in range of 5-6% every fiscal.
- **Client concentration risk:** On account of no major shuffle in the portfolio of key clients during last five years, the top five customers continued to contribute 50-60% to the TOI in FY21 in line with past. Largest revenue driver contributing 25-30% exposes HAIPL to single party risk to a large extent. Going ahead reduced client concentration, addition of new clients across geographies would be key rating monitorable.
- **Volatility associated with raw material prices and competitive industry:** Raw materials are the key driver of the cost structure constituting 70-72%. Aluminium ingots and Ferrous castings are the key raw materials for the company. Presence of only limited pass through and stiff competition from market leader of brakes is putting pressure on the profitability of HAIPL despite being the second largest player in the industry. (Source: Company data). Further, on account of slowdown in global automobile industry due to curtailed lending, higher cost of production, insurance and ownership, along with outbreak of covid-19 pandemic and resultant supply disruptions and weak consumer sentiments, demand was impacted in last two three years. However, with resumption of normal economic activities, demand improved both globally and in domestic market and is expected to remain stable in near to medium term. For the automobile industry, recovery in economic activities, pent-up demand and discount schemes have led to an increase in demand. However, the same is partially impacted by elevated fuel prices and chip shortage during current year.

Liquidity analysis: Adequate. HAIPL maintained healthy cash and liquid balances (cash + FDRs) of Rs.46.65crore as on December 31, 2021 (Rs.50.30 crore as on March 31, 2021). In addition, cash flow from operations is expected to be close to Rs.20crore in FY22, against which the company has nil external debt obligation. In addition, the operating cycle of the company continued to remain comfortable at 8 days. The working capital requirements are met through internal accruals given healthy cash flows from operation.

Analytical approach: Standalone. Although standalone approach is adopted by CARE, the support is derived from parentage of Hitachi Astemo Brakes B.V. Netherlands (being a stepdown subsidiary of Hitachi Limited).

Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Auto Ancillary Companies

About the Company

Incorporated in 2011, HAIPL (formerly known as Foundation Brake Manufacturing Private Limited, FBMPL) was a 100% owned subsidiary of Bosch Chassis Systems India Limited till February 24, 2012, later stakes were sold to Hitachi Astemo Brakes B.V. Netherlands (formerly known as Chassis Brakes International BV, Netherlands). On October 14, 2019, Hitachi Astemo Brakes B.V. Netherlands became a wholly owned subsidiary of Hitachi Astemo Limited (Hitachi Automotive Systems, Tokyo, Japan). On January 01, 2021, an absorption type merger was implemented, thereafter, Hitachi Limited holds 66.6% of the shares in Hitachi Astemo Limited and Honda Motor Co. Limited holds 33.40% of the shares in Hitachi Astemo Limited. HAIPL is engaged in developingand producing innovative brake for passenger vehicles and light commercial vehicles for the global automotive industry. The major products manufactured by company include drum brakes and disc brakes. HAIPL caters to major Original Equipment Manufacturer (OEM) such as Maruti Suzuki, Mahindra & Mahindra, Renault-Nissan, Piaggio and Toyota to name a few. In recentpast, the company has also entered into two-wheeler segment however is yet to have established market presence in it.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22 (U/A)
Total operating income	790.90	663.82	727.80
PBILDT	16.51	8.43	12.70
PAT	-19.08	-18.10	-11.20
Overall gearing (times)	0.00	0.02	NA
Interest coverage (times)	7.26	5.30	-

A: Audited; NA: Not available; U/A: un-audited

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: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE BBB+ (Is); Stable

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	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BBB+ (Is); Stable	1)CARE BBB+ (Is); Stable (05-Apr-21)	1)CARE BBB+ (Is); Stable (06-Apr-20)	1)CARE BBB+ (Is) (CWD) (16-Sep-19)	1)CARE BBB+ (Is); Stable (14-Mar-19)

** Long Term / Short Term*

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

Annexure 4: Complexity level of various instruments rated for this company: Not applicable

Annexure 5: Bank Lender Details for this Company: Not applicable

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.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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