

Igarashi Motors India Limited

March 12, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹¹	Rating Action
Long-term Bank Facilities	42.88 (Reduced from 76.14)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	50.00 (Enhanced from 20.00)	CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term Bank Facilities	48.00 (Enhanced from 30.00)	CARE A1+ (A One Plus)	Reaffirmed
Short-term Bank Facilities [^]	-	-	Withdrawn
Total Bank Facilities	140.88 (Rs. One hundred forty crore and eighty eight lakhs only)		

Details of facilities in Annexure-1

[^]In respect of short-term facilities that have been withdrawn, CARE has withdrawn the short-term rating assigned to Non-fund-based limits as they cease to exist as per the latest available sanction letter.

Detailed Rationale & 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, management team with experienced personnel, comfortable profit margins albeit a moderation in FY20 (refers to the period April 1 to March 31) and comfortable capital structure.

The ratings, however, are constrained by moderation in operational performance in FY20 and 9MFY21 due to global slowdown in the auto industry and the Covid lockdowns across the globe, IMIL's major focus on DC motors and sales to few reputed clients which is however, partially offset by IMIL's long standing relationship with clients and development of Brushless DC (BLDC) motors which expands IMIL's product profile.

Rating Sensitivities

Positive Factors

- Ability to grow its scale of operations beyond Rs.1,000 crore with a more diversified product profile and end-use applications.
- Increase in PBILDT margin above 25% on a sustained basis.

Negative Factors

- Any significant drop in the overall sales volumes and profitability margins.
- Any large capital expenditure plans leading to a deterioration in leverage with overall gearing exceeding 0.5x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management team & long track record of operations

IMIL has well-established operations with track record of more than two decades. Started as a contract manufacturer in 1996, the company had ventured into design and development of critical automotive applications since 2000. IMIL has spent significant resources in development of actuator motor, a type of DC motor, for the Electronic Throttle Control (ETC) application. IMIL has presence in Tier 2 of auto business by manufacturing electric motors and with the acquisition of AESPL's (Agile Electric Sub-Assembly Private Limited) export division, IMIL has gained presence in Tier 3 and Tier 4 of the automobile business, thereby integrating operations in a single company.

¹ Complete definition of the ratings assigned are available at <http://www.careratings.com> and other CARE publications

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. Mr. Hemant M Nerurkar is an industry veteran having worked in the auto sector for long. The day-to-day operations of IMIL are managed by Mr.Chandrasekar ,who was appointed as Managing Director and CEO in October-2019. He was earlier associated with the company as the Chief Financial Officer.

Strong relationship with reputed clients though 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 automotive sector specifically for passenger cars. These motors are primarily used in ETC systems to open & close the throttle valve at desired angles.

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 89% of sales in FY20 (PY: 89%).

IMIL derives majority of its revenues from a few large clients, which in turn supply to multiple OEMs across the globe. The sales are routed through Igarashi group's marketing offices across key operating markets. 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 delivery 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 profile in the long term despite high sales concentration to these clients.

De-risking segment concentration

While the company started off with the supply of DC motors for ICE engines and that continues to remain the main stay of the business, the company has consciously moved to other applications and developed other DC motor versions which are engine technology neutral and will find application in electric vehicles as well. IMIL also sells motor sub-assemblies like armature assembly for 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, scalable to 2.7 Mn 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 in FY20 for a key client and has gradually scaled up volumes. The volume of sales in this segment is expected to go up further. Apart from this, company has undertaken R&D for EV and 2-wheeler applications.

Comfortable capital structure

IMIL's capital structure continues to be strong with a Debt-Equity ratio of 0.19 and overall gearing of 0.30 as on March 31, 2020. The term debt/ PBILDT continues to be sub-unity in FY20. IMIL's capital structure is expected to remain comfortable on account of the company's large net worth base and also considering that the company does not have major debt-funded capex plans for the upcoming years. The company has sufficient available installed capacity to aid its turnover growth.

Key Rating Weaknesses

Comfortable profit margins albeit a moderation in FY20

The company has consistently maintained comfortable PBILDT margins. During FY20, the profitability level has moderated due to a reduction in volume of production. Also, company incurred a one-time quality cost of Rs. 11.19 Crs in FY20 which tempered the profit margins.

Moderation in operational performance in FY20 due to global slowdown in the auto industry

The company has been constantly improving its operational performance over the years which however has seen a dip in recent times. The drop is primarily on account of the slowdown in the auto industry globally and the Covid impact in various regions across the globe.

Even in the 9MFY21 period, the company faced challenges due to the covid lockdowns/drop in demand, but the Q3FY21 indicated a change in this trend with a Q-o-Q growth of 14% and Y-o-Y growth of 11% w.r.t the turnover. The company

reported a total income of Rs.371.80 crore and a PAT of Rs.14.64 crore for 9MFY21 which represents a 12.71% drop over 9MFY20. However as stated earlier, the performance in Q3FY21 was significantly better and that has contributed to a large extent to the 9MFY21 performance. The company reported a PAT of Rs.13.35 crore on a TOI of Rs.171 crore for Q3FY21.

Foreign currency exposure

The company imports a major portion of its raw material requirement. However, as the company exports most of its products, it has natural hedge. IMIL also hedges a portion of its unhedged foreign currency exposure by entering into forward contracts.

Liquidity analysis – Strong

Liquidity is marked by strong gross cash accruals of Rs.68 crore in FY20 as against repayment of Rs.42 crore and a cash balance of Rs.2.82 crore as on March 31, 2020. With gearing of 0.30x times as of March 31, 2020, the issuer has additional headroom to raise additional debt if required. Its unutilised WC limits are more than adequate to meet its working capital needs. Average working capital utilisation for the last 12 months stood at 56.58%. The current ratio of the company stood at 1.26 as at March 31, 2020. The cash balance as on December 31, 2020 is at Rs. 5.45 Crs.

The average collection period for the company has remained at 94 days (PY: 93 days) and the inventory holding is at 57 days (PY: 46 days). The same is in line with the overall business model of the company and the operating cycle is at 81 days (PY: 77 days). The company has availed moratorium on the principal repayment of FCTL loan with Axis(Rs. 10 cr for the month of May), by extension of tenor. The company has not availed interest moratorium for any of the facilities with Axis Bank and IDFC First Bank.

Analytical approach: Standalone

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[CARE's policy on default recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's Methodology for manufacturing companies](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology- Auto Ancillary Companies](#)

About the Company

Igarashi Motors India Limited (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 date AESPL (Agile Electric Sub-Assembly Private Limited), 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 Brushless DC motor (BLDC) which is used in consumer applications like fans and has started supplying to customers from FY20. The company's manufacturing facilities are based out of Chennai, Tamil Nadu.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total income	631.00	545.76
PBILDT	141.40	89.70
PAT	57.42	29.91
Overall gearing (times)	0.28	0.30
Interest coverage (times)	8.99	5.97

A: 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: Annexure-3

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-EPC/PSC	-	-	-	48.00	CARE A1+
Term Loan-Long Term	-	-	Nov 2023	42.88	CARE A+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	50.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (CWD) (17-Aug-18)	1)CARE A1+; Stable (08-Mar-18)
2.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (CWD) (17-Aug-18)	1)CARE A1+ (08-Mar-18)
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (CWD) (17-Aug-18)	1)CARE A1+ (08-Mar-18)
4.	Fund-based - ST-EPC/PSC	ST	48.00	CARE A1+	-	1)CARE A1+ (13-Mar-20) 2)CARE A1+	1)CARE A1+ (CWD) (03-Jan-19)	1)CARE A1+; Stable

						(02-Apr-19)	2)CARE A1+ (CWD) (17-Aug-18)	(08-Mar-18)
5.	Term Loan-Long Term	LT	42.88	CARE A+; Stable	-	1)CARE A+; Stable (13-Mar-20) 2)CARE A+; Stable (02-Apr-19)	1)CARE A+ (CWD) (03-Jan-19) 2)CARE A+ (CWD) (17-Aug-18)	1)CARE A+; Stable (08-Mar-18)
6.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	50.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (13-Mar-20) 2)CARE A+; Stable / CARE A1+ (02-Apr-19)	-	-
7.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1+ (13-Mar-20) 2)CARE A1+ (02-Apr-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Working Capital Limits	Simple
2.	Fund-based - ST-EPC/PSC	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Term Loan-Long Term	Simple

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

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About CARE Ratings:

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