Flash Electronics (India) Private Limited (Revised)

February 16, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	165.70 (Enhanced from 130.68)	CARE A-; Negative	Reaffirmed
Long-term / Short-term bank facilities	25.00	CARE A-; Negative / CARE A2	Reaffirmed
Short-term bank facilities	25.00	CARE A2	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings to the bank loan facilities of Flash Electronics (India) Private Limited (FEIPL consolidated) continue to benefit from the experienced promoters and established track record, strategic location of its manufacturing facilities, diversified product portfolio, moderately large scale of operations and longstanding relationship with Bajaj Auto Limited (BAL). The ratings factor in improvement in FEIPL's scale of operations in FY22 (FY refers to the period from April 01 to March 31) and 9MFY23. These strengths are partially tempered by moderate profitability marked by suboptimal capacity utilization and risk arising out of fluctuation of raw material prices. FEIPL's capital structure and debt protection metrics though improved, remained moderate as a result of elevated debt levels, as the group's plan to reduce debt through asset monetization has not materialized as envisaged.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant scaling up of operations and/or profitability leading to substantial rise in gross cash accrual (GCA) to more than ₹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 around 1x on sustained basis

Negative factors

- Any un-envisaged debt programme leading to deterioration in the capital structure i.e. overall gearing more than 2x going forward
- Lower-than-expected improvement in turnover and/or profitability leading to GCA below ₹75 crore on a sustained basis.

Analytical approach: Consolidated

CARE Ratings 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 - 6 below.

Outlook: Negative

The negative outlook reflects CARE Ratings' expectations of elevated debt levels over the medium term. The outlook may be revised to 'Stable' in case the Flash group is able to achieve better-than-envisaged operational performance coupled with debt reduction and subsequent improvement in debt coverage metrices.

Key strengths

Experienced promoters and long track record of the company: The promoters (Vasdev and Kathuria family) have more than two decades of experience in manufacturing of automotive components. The founder, Mr. Sanjeev Vasdev (Chairman and Managing Director), has an experience of over 30 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 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: The manufacturing facilities established in domestic market are 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.

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

FEIPL'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 five product groups i.e. Electricals & Electronics, Fuel Injection System, Metallics, Engine Components and EV components having 150+ products in its portfolio. These products majorly find application in two-wheeler (2W) and three-wheeler (3W) segment. Furthermore, 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. CARE Ratings opines that the company will continue to benefit from its diversified product portfolio over the medium term.

Moderately large scale of operations supported by longstanding relationship with BAL: Over the years, the group'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. BAL accounted for around 53% of FEIPL's consolidated total sales during FY22 (around 52% during FY21). It has also benefited from the acquisition of foreign subsidiary and addition of new clients. FEIPL's revenue increased to ₹1,013.93 crore from ₹812.18 crore in the past three fiscals ended FY22. The ramp up in EV segment coupled with better order execution in metallic segment has led to H1FY23 revenue of ₹618.70 crore (₹918.00 crore in 9MFY22). CARE Ratings expects the revenue growth to continue over the medium term supported by ramp-up in sale of EV components and new customer additions.

Key weaknesses

Leveraged capital structure and below-average debt coverage metrics: FEIPL's tangible networth remained moderate at ₹222.58 crore as on March 31, 2022 (₹210.98 crore as on March 31, 2021). However, in the absence of material debt reduction, the overall gearing was seen moderate at 1.83x as on March 31, 2022 (1.98x as on March 31, 2021). The capital structure remained leveraged than CARE Ratings' expectations due to delay in deleveraging program through cash flow from (Flash Viven Machining Technologies Private Limited) FVMT's asset monetisation in Q2FY23. The plan has been delayed and FEIPL's reliance on external borrowings continues to remain high, even after accounting for the prepayments made during FY23
The interest coverage ratio marginally improved to 2.24x in FY22 from 1.65x in FY21 however, remains moderate. Furthermore, the total debt to GCA remained high at 7.13x in FY22 (4.35x in FY21). FEIPL's capital structure and debt coverage indicators are likely to remain moderate over the medium term and timely debt reduction is critical from credit rating perspective.

Improved however, moderate profitability: PBILDT margin remained moderate at 10.65% in FY22 (9.45% in FY21) due to sub-optimal capacity utilisation in the machining and forging division mainly on account of semiconductor chip crisis thus, impacting order flow from OEMs. The PBILDT margins though improved to 12.53% in H1FY23 (11.53% in H1FY22), remained moderate. CARE Ratings expects that with increasing capacity utilization in metallics division and EV components, the PBILDT margins are expected to expand by 100-150 bps over medium term however, remain moderate.

Fluctuations in the raw material prices: The primary raw material required by the company 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 impacts the profitability margin.

Competitive landscape: The company manufactures products and operates in an industry which comprises several players in the organised as well unorganised sector and is also characterised by high degree of fragmentation. There also exist big-sized players resulting in intense competition in the industry.

Liquidity: Adequate

The liquidity is supported by the expected moderate cushion between GCA and repayment obligation, moderately low fund-based utilization and healthy cash and cash equivalents. FEIPL is expected to generate GCA of about ₹98-150 crore against repayment obligation of ₹41-72 crore over the medium term. The company has moderately low cash credit utilization with average of maximum utilization over the past 12 months through December 2022 at 34%. It had free cash and cash equivalents of ₹58.32 crore as on March 31, 2022. The company has moderately leveraged capital structure at 1.83x as on March 31, 2022 which limits the headroom to raise fresh debt to fund additional capex or incremental working capital limits.

Applicable criteria

Policy on default recognition
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
Policy on Withdrawal of Ratings

About the company

Flash Electronics (India) Private Limited , 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, auto engineering components and other electrical and electronic components. FEIPL as on date has seven 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.

Industry Classification

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

Brief Financials (₹ crore) - Consolidated	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	842.44	1013.93	618.70
PBILDT	79.64	108.03	77.50
PAT	65.46	11.01	24.90
Overall gearing (times)*	1.98	1.83	NA
Interest coverage (times)	1.65	2.24	2.69

A: Audited; UA: Unaudited; NA: Not Available

**Overall gearing includes Creditors backed by letter of credit*

Brief Financials (₹ crore) - Standalone	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	612.54	736.68	464.50
PBILDT	70.11	79.18	55.70
PAT	25.48	20.78	20.10
Overall gearing (times)*	1.06	0.95	NA
Interest coverage (times)	3.00	2.43	2.97

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

List of Subsidiaries consolidated: Annexure-6

Annexure-1: Details of 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-Cash Credit	-	-	-	-	41.00	CARE A-; Negative
Fund-based - LT-Term Loan	-	-	-	30/06/2029	124.70	CARE A-; Negative
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	25.00	CARE A-; Negative / CARE A2
Non-fund-based - ST-BG/LC	-	-	-	-	25.00	CARE A2

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-Term Loan	LT	124.70	CARE A-; Negative	-	1)CARE A-; Negative (07-Mar-22)	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)
2	Fund-based - LT-Cash Credit	LT	41.00	CARE A-; Negative	-	1)CARE A-; Negative (07-Mar-22)	1)CARE A-; Stable (30-Mar-21) 2)CARE A-; Negative (17-Sep-20)	1)CARE A-; Negative (17-Mar-20)

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
							3)CARE A-; Negative (01-Jul-20)	
3	Non-fund-based - ST-BG/LC	ST	25.00	CARE A2	-	1)CARE A2 (07-Mar-22)	1)CARE A2 (30-Mar-21) 2)CARE A2 (17-Sep-20) 3)CARE A2 (01-Jul-20)	1)CARE A2 (17-Mar-20)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	25.00	CARE A-; Negative / CARE A2	-	1)CARE A-; Negative / CARE A2 (07-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities

Name of the Instrument	Detailed Explanation
Long term bank facilities	a) Submission of unaudited quarterly profit and loss statements and key balance sheet figures half yearly, withing 90 days or such other period as reasonably required by bank. b) Submission of independently audited annual accounts. c) Submission of unhedged foreign currency exposure on quarterly basis

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

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

Annexure-6: List of Subsidiaries considered in consolidation of financials:

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

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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About us:
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