Igarashi Motors India Limited

February 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	29.67 (Enhanced from 25.54)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	60.00	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	68.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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 global automotive motors industry, management team with experienced personnel, coupled with strong relationship with reputed clients, though with high sales concentration. Ratings also factor in the company's efforts for de-risking segment concentration risk through increasing share of Brushless DC (BLDC) motors for ceiling fan applications in Indian Electrical Consumer Durable market and its comfortable capital structure and adequate liquidity position.

However, ratings are constrained by moderation in IMIL's operational performance over the years resulting in the moderation in profitability margins and debt coverage indicators, albeit improving trend in operational performance in FY23 (refers to the period April 1 to March 31) & H1FY24. Ratings are also constrained due to 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 profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and return on capital employed (ROCE) above 15% on a sustained basis.
- Sustenance of low gearing and total debt to PBILDT below 1x.

Negative factors

- Any significant drop in the overall sales volumes and PBILDT margins remaining less than 10% on a sustained basis.
- 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 expectation of 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.

Detailed description of the key rating drivers:

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. The company started as a contract manufacturer in 1992, and 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

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

the majority stake in IMIL, and the India operations are overseen by a professional board with Hemant M Nerurkar as the Chairman of the board. He is an industry veteran, having worked in the auto-sector for an extensive period. The day-to-day operations of IMIL are managed by R. Chandrasekaran, 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 as well as BLDC Solution for electric consumer durables. The company has been undertaking consistent efforts in broad-banding actuator applications besides air management (ETC, EGR, VTG) to braking application [EPB, EVP and PLA] and vehicle body applications [TOCD]. All these motors are technology-agnostic products being used in internal combustion engines (ICE), Hybrid and BEV car segments. The company has been supplying these motors to Tier-I suppliers of leading automobile manufacturers in the world. Most of its manufactured products are exported contributing 63.81% of sales in FY23 (PY: 70%). IMIL is also a supplier of sub-assemblies for DC Brush/Brush Less Motors for Seat applications – motor, armature and brush holder assembly, Window Lift Application - stator and armature assemblies, Fuel pump application – armature and carrier assembly catering to both global and domestic customers. IMIL derives majority of its revenues from a few large clients, which in turn supply to multiple original equipment manufacturers (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 an extensive relationship with these clients and forms an important part of their global supply chain. Hence, the client concentration risk is mitigated to an extent. 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 customise the products according to client's requirements. Through such advantages along with cost-effectiveness by way of operating in India, IMIL ensures stable customer and revenue profile in the long term to an extent despite high sales concentration to these clients.

De-risking segment concentration

The company started with the supply of DC motors for ICE, which continues to be the mainstay of the business. Moreover, it 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. To de-risk from the automotive applications, the company had 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 currently the company has a capacity of 1 million units which is expected to scale up to 2 million units in FY24. BLDC motors are smaller in size, more efficient, noiseless and generate higher ranges of speed when compared to a brush motor. Over the past 3 years, the company has significantly increased the Electronics Design capabilities through new product launches and quality improvements. It manufactures printed circuit boards (PCB's) with radio frequency remote and internet of things-enabled features. IMIL has developed Wall Regulator PCB compatible with all standard induction fan regulators. 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 increase further. Apart from this, the company has undertaken R&D for EV, 2-wheeler and 3-wheeler applications.

Comfortable capital structure

Company's capital structure remained strong characterised by its comfortable overall gearing ratio at 0.34x as on March 31, 2023 (PY: 0.26). Over a period, capital structure is comfortable on the back of accretion of profits to the net worth. Though capital structure of the company is expected to be moderate in the medium term because of the increased reliance of operations on the working capital borrowings (to fund the expected increase in scale), for capex purpose, the same is expected to remain at a comfortable level.

Liquidity: **Adequate**

IMIL has a term debt repayment obligation of ₹16.71 crore in FY24, which is expected to be met comfortably through its internal accruals. It has already generated cash accruals of ₹27.53 crore in H1FY24 (UA). The company had free cash and unencumbered liquid investments of ₹17.01 crore, as on September 30, 2023, which also provides comfort to the overall liquidity profile. The company has planned growth and maintenance capex of about ₹38 crore in FY24, which is planned to be funded through mix of debt and internal accruals of the company. Of the total capex proposed in FY24, the company has already incurred ₹35.22 crore by December 31, 2023. With an overall gearing of 0.34x as on September 30, 2023, 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 60% during the 12-month period ended November 2023. The current ratio of the company also stood comfortable at 1.41 on March 31, 2023.

Key weaknesses

Improved operational performance albeit lower than expected

The total volume sold by the company improved by around 14% in automotive segment (sub-assemblies) in FY23, on a year-on-year basis, and the volume sold improved by around 33% in non-automotive segment (BLDC motors) resulting in improvement in total operating income (TOI) by around 17% in FY23. The PBILDT margin of the company improved from 8.82% in FY22 to 9.31% in FY23 mainly on the back of improved capacity utilisation, reduction in commodity prices and improvement in price realisation. However, its PBILDT margin stood lower than its earlier expectations. The PBILDT margin of the company has been on a downtrend for the last few years, declining from around 27% 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 utilisation. The same resulted in moderation in the debt coverage indicators over the years (though remained at a satisfactory level), with the interest coverage ratio deteriorating to 4.75x (PY: 6.83x) and total debt/ PBILDT to 2.39x in FY23 (PY: 2.30x). Moderation in overall debt protection metrics in FY23 is due to increase in overall debt position of company (due to increase in working capital borrowings) vis-à-vis operating profitability. During H1FY24, the company has reported a TOI of ₹346.69 crore, which increased by around 9.59%, compared to the operating income achieved in the same period last year. The PBILDT margin of the company further improved to 9.67% during H1FY24, compared to 7.32% achieved in the same period last year and expected to remain in the range at around 10% in medium term.

Susceptibility of margins to raw material price fluctuation and foreign currency fluctuation risk

Raw material costs as a proportion of TOI for FY23 stood at 68% (PY: 67%). The major raw materials used by the company are steel and copper, where prices are highly volatile in nature. 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 66%), with major source nations being Singapore and Japan. While steel is mainly imported from Japan and Singapore, copper is procured domestically. Prices of the two major raw materials witnessed 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 66%), 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 and packing credit in foreign currency.

Industry prospects

The domestic passenger vehicle industry registered growth of 26.73% in FY23 with record sales of over 3.89 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 increase in interest rates in FY24 and manufacturers hiking prices, the pent-up demand has moderated with growth of 6.89% in domestic passenger vehicle sales in 9MFY24. While passenger vehicle sales volume growth is expected to be in the range of 8-10% in FY24 led by high demand in the sports utility vehicle segment, the demand remains healthy across both passenger cars and utility vehicles. However, the growth rate of the passenger vehicle industry may moderate due to a strong base effect of the last fiscal as well as macro factors including high interest rates, inflation, and cost impact from new regulatory norms. Though the commodity prices have softened, players continue to hike prices to recover earlier surges in raw materials.

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. Apart from that, the company also supplies 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 urbanisation.

Environment, social, and governance (ESG) risks

Risk factors	Actions taken by the company
Environmental	Company has target for 15% reduction in non-renewable energy consumption in energy mix by FY2025. There is plan for installation of in-house Solar PV system capable of generating 400 kWhr/day of energy by FY2030. There is target of reduction in generation of hazardous and non-hazardous waste year-on-year basis as a proportion of sales. 30 % emission reduction by FY2030.
Social	CSR projects currently aim to promote cancer awareness (20 million reaches), provide healthcare to patients (30 Multiple Sclerosis patients), patient health and hygiene services (150-bed cancer block) in government hospitals and Prime Minister's National Relief Fund. Total amount contributed in FY23 was Rs ~0.30 Crs. There is target of increase in the number of women in managerial position to 25% by 2030.
Governance	The company is managed by professional board of directors who have extensive experience in Auto Ancillary industry and board of directors is well diversified with two independent directors.

Applicable criteria

Policy on default recognition
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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components & equipment

IMIL was originally incorporated as CG Igarashi Motors Limited in January 1992 as a joint venture (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, 2023, 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)	FY22 (A)	FY23 (A)	H1FY24 (Prov.)
Total operating income	558.61	656.25	346.69
PBILDT	49.27	61.09	33.53
PAT	1.19	5.24	2.88
Overall gearing (times)	0.26	0.34	0.34
Interest coverage (times)	6.83	4.75	5.98

A: Audited; Prov.: Provisional; Note: Financials are reclassified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to 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 (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Working capital limits		-	-	-	60.00	CARE A+; Stable / CARE A1+
Fund-based - ST-EPC/PSC		-	-	-	68.00	CARE A1+
Term loan-Long term		-	-	October 2027	29.67	CARE A+; Stable

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 2023-2024	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
1	Fund-based - ST-EPC/PSC	ST	68.00	CARE A1+	-	1)CARE A1+ (06-Mar-23)	1)CARE A1+ (21-Dec-21)	1)CARE A1+ (12-Mar-21)
2	Term loan-Long term	LT	29.67	CARE A+; Stable	-	1)CARE A+; Stable (06-Mar-23)	1)CARE A+; Stable (21-Dec-21)	1)CARE A+; Stable (12-Mar-21)
3	Fund-based - LT/ ST-Working capital limits	LT/ST*	60.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (06-Mar-23)	1)CARE A+; Stable / CARE A1+ (21-Dec-21)	1)CARE A+; Stable / CARE A1+ (12-Mar-21)
4	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (12-Mar-21)

*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/ ST-Working capital limits	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Term loan-Long term	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.

Contact us

Media Contact	Analytical Contact
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone:+ 91- 22- 6754 3404 E-mail: saikat.roy@careedge.in	Name: Hardik Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Name: Akhil Kumar Associate Director **CARE Ratings Limited** Phone: +91-120-4451986 E-mail: akhil.kumar@careedge.in Karan Ahluwalia Lead Analyst **CARE Ratings Limited** E-mail: karan.ahluwalia@careedge.in

About us:

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