Flash Electronics (india) Private Limited (Revised)

March 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.00	CARE A-; Positive	Assigned
Long Term Bank Facilities	149.41	CARE A-; Positive	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	25.00	CARE A-; Positive / CARE A2	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	15.00	CARE A2	Assigned
Short Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank loan facilities of Flash Electronics (India) Private Limited (FEIPL) continues to factor in experienced promoters and established track record of operations, longstanding relationship with Bajaj Auto Limited (BAL), strategic location of its manufacturing facilities, and diversified product portfolio. Ratings also factor in growth in FEIPL's scale of operations driven by increased contribution from electric vehicle (EV) components as well as overall growth in the automobile industry and improvement in profitability in FY23 (refers to period from April 1 to March 31) and H1FY24 (refers to period from April 1 to September 30).

These strengths are partially tempered by its moderate capital structure and debt protection metrics though improved in FY23 and H1FY24, moderate profitability, and risk associated with volatility in raw material prices and high competition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant scaling up of operations, profitability leading to improvement in the debt coverage indicators with profit before interest, lease rentals, depreciation and taxation (PBILDT) interest coverage above 5x and total debt to GCAs lower than 2x on sustained basis.
- Strengthening of the capital structure going forward with overall gearing below 1x on sustained basis

Negative factors

- Moderation in debt coverage indicators with debt/PBILDT over 2.5x going forward
- Any large debt-funded capex programme

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials, including FEIPL and its subsidiaries, because of common promoters, similar line of business, inter-company transactions and exposure of FEIPL to group companies in terms of corporate guarantee. Moreover, FEIPL 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 consolidated subsidiaries are given as Annexure-6 below.

Outlook: Positive

Revision in the outlook on the long-term rating of FEIPL from 'Negative' to 'Positive' factors in expected improvement the profitability and capital structure supported by growing share of EV segment and absence of large sized debt-funded capex in medium term. Further, FEIPL plans to raise equity in near term which is expected to boost its credit metrics further. The materialization of the same will remain key monitorable.

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

Detailed description of the key rating drivers:

Key strengths

Growing scale of operations in FY23 and H1FY24

On a consolidated level, FEIPL's TOI increased to ₹1,214.98 crore in FY23 (refers to period from April 1 to March 31) from ₹1,013.92 crore in FY22. The growth was driven by better order flow with ramp-up in EV segment and overall increase in demand in automobile industry. FEIPL reported revenue of ₹653.70 crore in H1FY24 as against ₹618.7 crore in H1FY23 (refers to period from April 1 to September 30). It reported revenue of ₹987 crore in 9MFY24 (Unaudited; refers to period April 1 to December 31). Scale of operations is likely to grow steadily over the medium term supported by ramp-up of EV segment, new product development and customer addition in the overseas market.

Company's long track record with established clientele and strategic location of manufacturing facilities

FEIPL is engaged in manufacturing A.C. generators/magnetos assemblies, starter motors for two-wheelers (2W) and three-wheelers (3W), electronic energy meters, auto engineering components and other electrical and electronic components and has track record of over two decades. Its subsidiaries are also engaged in manufacturing various components for automobile industry. Over the years, the company has established healthy relationships with its customers, particularly BAL, leading to significant scaling up of operations, which is expected to continue over the medium term. BAL accounts for major contribution towards revenue. FEIPL has established strong relationship with BAL, maintaining itself as a key supplier and has been able to increase its share of business with BAL.

Flash group has six manufacturing units, of which four are in key auto clusters in India, two in Pune (Chakan) and two in Haryana (Faridabad). The plants are in vicinity of its key customer, BAL, thereby building stronger relationship. The company, owing to its two foreign manufacturing units in Germany and Hungary, has established relationships with marquee clients and has access to intellectual capital and technical collaboration leading to product development in key areas such as fuel injection system-based components, and EV components among others. Apart from these, the company has R&D centre situated at Bhosari, Pune Maharashtra.

Diversified product portfolio

On a consolidated basis, FEIPL operates across five product groups, Electricals & Electronics, Fuel Injection System, Metallics, Engine Components and EV components, having 150+ products in its portfolio. These products majorly find applications in 2W and 3W segments. The company has been regularly investing in research and development (R&D) over the years 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. FEIPL also plans to start catering to four-wheeler EVs and e-buses. CARE Ratings opines that FEIPL will continue to benefit from its diversified product portfolio over the medium term.

Experienced promoters

Promoters (Vasdev and Kathuria families) have more than two decades of experience in manufacturing of automotive components. The founder, Sanjeev Vasdev (Chairman and Managing Director), has an experience of over 30 years in the automobile sector. Mr. Narinder Kathuria, is an engineering graduate from IIT Delhi and heads the Research and Development division at FEIPL.

Key weaknesses

Improvement in capital structure and debt-protection metrices, though remained at moderate level

Steady accretion to reserves and reduction in debt level led to improvement in FEIPL's capital structure at a consolidated level in FY23. However, it continued to remain moderate. Overall gearing ratio stood at 1.38x as on March 31, 2023 (1.83x as on March 31, 2022). Debt/PBILDT ratio improved and stood at 2.40x in FY23 (3.78x in FY22). The solvency position also improved in H1FY24 as indicated by overall gearing and debt/PBILDT ratio of 1.26x and 1.95x, respectively. The interest coverage ratio improved marginally to 2.86x in FY23 from 2.24x in FY22. CARE Ratings takes note of deferment of Flash Viven Machining Technologies Private Limited's (FVMT's) asset monetisation plan, which has resulted in lower-than-envisaged improvement in capital structure. CARE Ratings expects FEIPL's capital structure and debt coverage indicators to improve over the medium term in the absence of any major debt-funded capex.

Moderate profitability which improved in FY23 and H1FY24

FEIPL's PBILDT margins improved to 12.57% from 9.45% in the past three fiscals ended FY23 owing to improved operating efficiency and better product mix. However, the margins remained at moderate level. FEIPL reported further improvement in

PBILDT margins to 14.47% in H1FY24 as against 12.53% in H1FY23. CARE Ratings expects PBILDT margins to expand by around 200 bps over the medium term supported by increasing capacity utilisation in metallics division and EV components.

Exposure to volatility in 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 price fluctuation of these inputs. However, the same has been largely mitigated by executing pass-through arrangement with BAL for major raw material components (aluminium and copper). However, the extent and lag in the pass-through impacts the profitability margin.

Competitive landscape
FEIPL manufactures products and operates in an industry comprising several players in the organised as well as unorganised sector and is characterised by high degree of fragmentation. Additionally, big-sized players result in intense competition in the industry.

Liquidity: Adequate
Liquidity is supported by the expected moderate cushion between net cash accruals (NCA) and repayment obligation, moderately low fund-based utilisation and healthy cash and cash equivalents. FEIPL is expected to generate NCA of around ₹100-140 crore against repayment obligation of ₹40-70 crore over the medium term. Working capital requirements are moderate and are majorly funded through internal accruals or credit from suppliers. Consequently, the company has moderately low cash credit utilisation with average of maximum utilisation over past 12 months through December 2023 at 35%. The free cash and bank balance stood healthy at ₹79 crore as on December 31, 2023, and the cash flow from operations stood at ₹147.67 crore in FY23. Current ratio remained at 1.28x as on March 31, 2023 (1.23x as on March 31, 2022).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments
Withdrawal Policy

About the company and industry

Industry classification

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

Incorporated on October 26, 1989, FEIPL is engaged in manufacturing automotive electrical and electronics products primarily for 2Ws and 3Ws. The company was founded by Sanjeev Vasdev and is currently spearheaded by him in the capacity of Chairman and Managing Director (CMD). FEIPL is engaged in manufacturing A.C. generators/magnetos assemblies, starter motors for 2Ws and 3Ws, auto engineering components, and other electrical and electronic components.

Brief Financials (₹ crore) - Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,013.94	1,214.98	653.70

PBILDT	108.04	152.72	94.60
PAT	11.01	45.32	28.10
Overall gearing (times)	1.83	1.38	NA
Interest coverage (times)	2.24	2.86	2.77

A: Audited; UA: Unaudited; NA: Not available; Note: 'these are latest financial results available'

Brief Financials (₹ crore) - Standalone	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	741.28	886.85	492.50
PBILDT	83.78	101.05	68.50
PAT	20.78	27.93	19.40
Overall gearing (times)	0.95	0.84	NA
Interest coverage (times)	2.57	2.57	2.83

A: Audited; UA: Unaudited; NA: Not available; Note: 'these are latest financial results available'

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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

Annexure-1: Details of instruments/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-; Positive
Fund-based - LT-Term Loan		-	-	30/06/2029	108.41	CARE A-; Positive
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	25.00	CARE A-; Positive / CARE A2
Non-fund-based-Short Term		-	-	-	15.00	CARE A2
Term Loan-Long Term		-	-	30/06/2029	25.00	CARE A-; Positive
Non-Fund-based – ST – BG/LC		-	-	-	0.00	Withdrawn

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 - LT-Term Loan	LT	108.41	CARE A-; Positive	-	1)CARE A-; Negative (16-Feb-23)	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)
2	Fund-based - LT-Cash Credit	LT	41.00	CARE A-; Positive	-	1)CARE A-; Negative (16-Feb-23)	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)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A2 (16-Feb-23)	1)CARE A2 (07-Mar-22)	1)CARE A2 (30-Mar-21) 2)CARE A2 (17-Sep-20) 3)CARE A2 (01-Jul-20)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	25.00	CARE A-; Positive / CARE A2	-	1)CARE A-; Negative / CARE A2 (16-Feb-23)	1)CARE A-; Negative / CARE A2 (07-Mar-22)	-

5	Term Loan-Long Term	LT	25.00	CARE A-; Positive				
6	Non-fund-based-Short Term	ST	15.00	CARE A2				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based-Short Term	Simple
5	Term Loan-Long Term	Simple
6	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Flash Viven Machining Technologies Private Limited	Full	Wholly-owned subsidiary
2	Flash Holding GmbH	Full	Wholly-owned subsidiary
3	Bing Power System GmbH, Germany	Full	Wholly-owned step-down subsidiary
4	Bing Power Origin Kft, Hungary	Full	Wholly-owned step-down subsidiary

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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