

## Taikisha Engineering India Private Limited

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	100.00	CARE BBB+; Stable	Assigned
Short Term Bank Facilities	20.00	CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Taikisha Engineering India Private Limited (TEIPL) derive strength from its strong parentage - Taikisha Limited, Japan, which held 58% stake in the company as on March 31, 2024 in the joint venture and is one of the leading players in paint finishing systems globally. TEIPL, by virtue of its parent, is able to leverage on the technology and designs, experienced engineers, and advanced robot manufacturing capabilities for their operations in India. The ratings also derive strength from the company's reputed customer base, improved operational performance during FY24 (refers to the period from April 01 2023 to March 31 2024) and comfortable financial risk profile. However, the ratings are constrained by modest profitability margins, along with its working capital-intensive nature of operations.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in liquidity, thereby leading to improvement in Gross Current Asset days to less than 200 days on a sustained basis.
- Increase in the scale of operations, thereby leading to sustained improvement in PBILDT margin to more than 10% on a sustained basis.

#### Negative factors

- Any change in the terms or shareholding of the foreign JV partner on a sustained basis.
- Any significant increase in debt levels thereby leading to overall gearing beyond 1x on a sustained basis.

**Analytical approach:** Standalone, however factoring in linkages with the foreign JV partner i.e. Taikisha Limited, Japan.

### Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects company to have stable operational performance. CARE Ratings also believes that TEIPL shall sustain its comfortable financial risk profile over the medium term.

### Detailed description of key rating drivers:

#### Key strengths

##### Strong Parentage

The company is a joint venture between Taikisha Limited, Japan and Margo Engineers Private Limited, which held 58% and 42% stake in the company respectively as on March 31, 2024. Taikisha Limited Japan was founded in the year 1913 as Kenzaisha Limited with the name changed to the present nomenclature in 1973. It has two business verticals i.e. green technology business and paint finishing business and is one of the leading players in automotive paint finishing systems globally. It has 28 overseas consolidated subsidiaries in 18 countries with 4,963 people employed. The consolidated turnover and PAT of Taikisha Limited, Japan stood at 2,14,793 million yen (~12,816.40 crore) and 8,841 million yen (Rs. 527.53 crore) respectively. The Indian JV partner i.e. Margo Engineers India Limited was incorporated on October 20, 1983 and is based out of Pune, Maharashtra. It was incorporated solely for undertaking painting projects for Maruti Udyog Limited and as a sub-contractor for Taikisha Limited, Japan. Therefore, the scope of the JV i.e. TEIPL was primarily the supply and installation of machineries for setting-up paint shop facilities for automobile companies and railways. It is also into manufacturing of sheet metals, fabrication units, conveyor systems and

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

control panels, however the same contributed less than 35% of overall revenue during the year. TEIPL pays 1% royalty to its foreign JV for shared brand name

TEIPL has board representation from both the JV partners including 4 directors from the foreign JV and 2 directors from the Indian JV partner. The overall operations of the company are currently being managed by Mr. Itsumi Kanazawa (board representative from Taikisha Limited, Japan) qualified in chemical engineering and has overall work experience of around 33 years in this field. He is ably supported in the operations by Mr. Hemant Natwarlal Makwana, Vice President- TEIPL (Whole-time director of Margo Engineers Private Limited), who has diploma in Industrial Electronics and has done Business Management in Marketing and Finance, with a total experience of 30 years.

### **Reputed customer base**

The company supplies paint shop facilities to some of the reputed customers in automobile as well railway industry. The major customers of the company include Maruti Suzuki India Limited, Alstom Transport India Limited, Hitachi Energy Switzerland Limited, Wabtec India Industrial Private Limited, Mahindra & Mahindra Limited etc. Further, the top-5 customers contributed ~52% of the overall sales of the company during FY24 (PY: ~45%).

### **Improved operational performance during FY24**

The total operating income of the company has grown at compounded annual growth rate (CAGR) of ~6% in the past 5 fiscals ending FY24. In FY24, the TOI recorded growth of ~41% y-o-y to Rs.667.11 crore (PY: Rs.474.38 crore). The same was owing significant increase in the orders received from some of the reputed customers of the company including Maruti Suzuki India Limited, Mahindra & Mahindra Limited and Wabtec India Industrial Private Limited. Moreover, the company also received orders for metro rail coach painting and some of the PM (Prime Minister) inaugurated projects such as Varanasi rail project, Vande Bharat Rail project, Modern Coach Factory, Rae Bareilly etc. for painting of railway coaches.

The PBILDT margin of the company improved by 199 bps and stood at 8.02% in FY24 (PY: 6.03%) backed by economies of scale. Further, the PAT margin improved by 240 bps and stood at 4.38% in FY24 (PY: 1.98%). The same has been owing to increase in the non-operating income from Rs.1.96 crore in FY23 to Rs.5.99 crore in FY24 due to compensation received for the loss on account of cancellation of purchase orders by one of the clients.

### **Comfortable financial risk profile**

The total debt of the company comprised of working capital borrowings of Rs.118.35 crore and term loan of Rs.0.41 crore as on March 31, 2024. The overall gearing ratio stood comfortable at 0.51x as on Mar-31, 2024 (PY: 0.48x), however it slightly moderated owing to higher utilization of working capital limits. The adjusted overall gearing, factoring in the bank guarantee against advances received and towards project performance, stood at 1.12x as on Mar-31, 2024.

With better profitability, the debt coverage indicators improved with Interest Coverage ratio (PBILDT/Interest) and Total debt to GCA of 4.78x and 3.07x respectively as on Mar-31, 2024 (PY: 3.43x and 5.08x respectively as on Mar-31, 2023).

### **Key weaknesses**

#### **Modest Profitability**

Though the operating profit margins of the company improved in FY24 backed by economies of scale, however the same continue to remain modest. During the pre-covid phase, the company had comparatively higher operating profit margins in the range of ~11-12%, however post that the company started facing competition from some of the domestic players thereby squeezing their margins. However, considering the better quality of services being offered with presence of renowned foreign JV, the company is able to command premium from its customers and therefore expects better margins going forward as the scale grows.

The primary raw materials for the company comprise of all the required machineries, conveyors, spray paints, robots etc. which are required to set up a paint shop facility. Further, in case of sheet metals, fabrication units, & control panels manufactured by the company, the major raw material is iron and steel. The raw material cost constituted ~68% of the total cost of sales in FY24 (PY: ~69%). In case of iron and steel, any raw material price reset is passed on to the customers at quarterly intervals. However, since the manufacturing forms only ~32% of the total sales for the company so the impact is not significant. In case of machineries procured for paint shop facilities, the rates are already fixed in advance and therefore there is no price reset.

#### **Working Capital Intensive nature of operations**

The company has higher reliance on working capital borrowings owing to its working capital-intensive nature of operations. The operating cycle of the company stood at 101 days as on Mar-31, 2024 (PY: 113 days). The average collection period of the company stood higher at 106 days as on Mar-31, 2024 (PY: 114 days) whereby company caters to some of the big OEM players, thereby leading to restricted bargaining power. Further, in case of manufacturing of sheet metals, conveyors etc. the raw material (RM) inventory is procured 3-6 months in advance and in case of railway projects, the customers accept the material only post inspection, which takes ~30-40 days. In case of paint shop for automobile entities, OEMs get the civil construction completed first and post which TEIPL takes over and installs machinery at their site, thereby increasing the inventory holding period. The same stood at 71 days as on Mar-31, 2024 (PY: 84 days). The RM is procured by the company both domestically and is also imported, thereby leading to average creditors of 75 days as on Mar-31, 2024 (PY: 85 days).

### **Industry Prospects**

The PV industry is expected to witness moderate volume growth of around 3-5% in FY25 on account of a high base effect of FY24, shrinking orderbook and expectation of persistently subdued demand for entry-level variants. The industry is however

poised to sustain its sales momentum, bolstered by the strong demand for new model launches and SUVs coupled with expectation of interest rate cuts in the second half of FY25.

Indian Railways recorded monthly freight loading of 135.46 MT in Jun 2024, an improvement of 10.07% over last year freight loading for the same period. Railways have earned INR 14,798.11 Cr in Jun 2024 against INR 13,316.81 Cr over the last year from Freight loading. The railway sector in India aims to contribute about 1.5% to the country's GDP by building infrastructure to support 45% of the modal freight share of the economy.

#### **Liquidity: Adequate**

Liquidity is marked by adequate accruals against repayment obligations of Rs.0.21 crore and cash & liquid balance to the tune of Rs. 31.61 Cr. as on March 31, 2024. With a gearing of 0.51 times as of March 31, 2024, the issuer has sufficient gearing headroom, to raise additional debt. Fund-based limits are utilized at an average of 77% and non-fund-based limits to the extent of ~39% for the immediately preceding 12 months ended Aug-24. The current ratio stood comfortable at 1.38 times as on March 31, 2024 (PY: 1.42x).

#### **Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

#### **About the company and industry**

##### **Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

The company is primarily engaged into the supply and installation of machineries for setting-up of paint shop facilities for automobile companies railways (contributed ~68% to the overall revenue during FY24; PY: 58%). Further, the company is also engaged into the manufacturing of sheet metals, fabrication units, conveyor systems and control panels (contributed ~32% of overall revenue during FY24; PY: ~42%). The overall operations of the company are currently being managed by Mr. Itsumi Kanazawa (Managing Director), who is a bachelor's in chemical engineering and has overall work experience of ~33 years in this field. He is further supported in the operations by Mr. Hemant Natwarlal Makwana (Vice President), who has diploma in Industrial Electronics and has done Business Management in Marketing and Finance, having total experience of 30 years.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	474.38	667.11	134.00
PBILDT	28.62	53.53	NA
PAT	9.40	29.20	NA
Overall gearing (times)	0.48	0.51	NA
Interest coverage (times)	3.43	4.78	NA

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

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	100.00	CARE BBB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	20.00	CARE A2

**Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Working Capital Limits	LT	100.00	CARE BBB+; Stable				
2	Non-fund-based - ST-Bank Guarantee	ST	20.00	CARE A2				

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

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA****Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

## Contact Us

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### About us:

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