Igarashi Motors India Limited

December 21, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	39.99 (Reduced from 42.88)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	50.00	CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	48.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**137.99 (Rs. One Hundred Thirty-Seven Crore and Ninety-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

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 with strong market position in automotive motors, a management team with experienced personnel and strong relationship with reputed clients albeit with high sales concentration. The ratings also factor in the company's efforts for de-risking segment concentration risk through increasing share of BLDC motors and its comfortable financial risk profile with healthy capital structure, comfortable debt metrics and adequate liquidity position. The ratings, however, are constrained by moderation in operational performance over the last two years due to global slowdown in the auto industry and the covid-19 led disruptions and exposure to raw material fluctuation risk and foreign currency fluctuation risk. Going forward, CARE Ratings believes that IMIL will maintain a comfortable leverage and adequate liquidity profile and the company will return to growth path from next fiscal year through diversification in its customer base and end user applications of motors.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Growth in scale of operations beyond Rs.800 crore with a more diversified product profile and end-use applications.
- Increase in PBILDT margin and ROCE above 15% on a sustained basis.
- Sustenance of low gearing and total debt to PBILDT below 1.5 times.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant drop in the overall sales volumes and profitability margins.
- Large capital expenditure plans leading to a deterioration in leverage with overall gearing exceeding 0.5 times.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management team & long track record of operations: IMIL has well-established operations with a long track record of more than two decades. Started as a contract manufacturer in 1996, the company had 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 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. R. Chandrasekaran, who is 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. 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 82% of sales in FY21 (refers to the period from April 1 to March 31) (PY: 89%). IMIL derives the majority of its revenues from a few large clients, which in turn supply to multiple 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 a long-standing relationship with these clients and forms an important part of their global supply 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

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

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 and revenue 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 mainstay 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 the 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 from FY20 onwards 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, the company has undertaken R&D for EV, 2-wheeler and 3-wheeler applications.

Comfortable financial risk profile: The overall capital structure of the company remained strong characterized by comfortable gearing and healthy debt coverage indicators. The overall gearing improved and remained healthy at 0.22x as on March 31, 2021 (PY: 0.30) which further improved to 0.20x as on September 30, 2021. The company debt coverage indicators also improved marked by interest coverage ratio and total debt/ PBILDT of 11.92x and 1.16x respectively as on March 31, 2021 (PY: 5.97x and 1.38x respectively). Going forward, IMIL's capital structure is expected to remain comfortable on account of the company's large net worth base and limited capex plans.

Key Rating Weaknesses
Moderation in operational performance: The company had been constantly improving its operational performance over the years which however has seen a dip in the last two years. The drop is primarily on account of the slowdown in the auto industry globally and the Covid-19 impact in various regions across the globe. Despite the impact of Covid-19 in H1FY21, the company reported a stable scale of operation of Rs. 540 crore in FY21 which is broadly in line with the total operating income of Rs. 545 crore in FY20. During FY21, the profitability margins of the company moderated by 129 bps from 16.44% in FY20 to 15.15% in FY21 mainly on account of covid-19 led disruptions such as lockdowns/ restrictions and continuous increase in commodity prices and the unavailability of containers and electronic parts. The PAT margin also moderated to 4.74% (PY: 5.48%). Further, during H1FY22 (refers to the period from April 1 to September 30), the company reported a total operating income of Rs. 310 crore (PY:201 crore) and a lower PBILDT margin of 12.37% (PY:11.99%) amidst impact of second wave of covid-19 pandemic.

Exposure to raw material price fluctuation and foreign currency fluctuation risk: The company imports most of its raw materials (~91% of the raw material, components, and spares) – mainly copper (procured domestically) & steel (mainly from Japan and Singapore). In order 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. With the majority of its raw materials imported (~90%), 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.

Industry Prospects: Despite the challenges such as covid-19, the global automotive industry recovered in the second half of CY2020 due to factors including pick-up of pent-up demand and an increase in the use of personal mobility. Considering the socio-economic situation and deployment of Government policies for the revival, it is estimated that the automotive industry will continue its V-shaped recovery and 2021 volumes will be at par with pre-COVID levels and reach the 100-million-unit milestone by 2027. The global automotive actuators market is estimated to reach USD 27.5 billion by 2022 from USD 22.8 billion in 2016, registering a low Compound Annual Growth Rate (CAGR) of 3.2% over CY 2016-2022 owing to Government regulations on emission control and other technological advancements and newer applications of automotive actuators. Growth in the automotive actuators market is also likely to be driven by increasing demand for electrification of actuators for the drive-train, comfort and body systems. Early adoption of EV mobility in public transport, commercial usage, and two-wheeler space is currently being envisaged.

Liquidity: Adequate
IMIL has adequate liquidity marked by healthy gross cash accruals of Rs. 71 crore against debt repayment of Rs. 24.60 crore in FY22. It had a free cash balance of Rs. 11.59 crore as on March 31, 2021. The company has planned a capex of ~Rs. 30 crore in FY21 for an additional capacity of 2.7 million of TAM which will be funded through debt to the extent of Rs. 12.95 crore and remaining through internal accruals of the company. The average fund-based working capital utilization of the company stood moderate at around 52% for the trailing 12 months ended October 2021.

Analytical approach: Standalone

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
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 onwards. The company's manufacturing facilities are based out of Chennai, Tamil Nadu.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	545.76	540.25	309.99
PBILDT	89.70	81.85	38.35
PAT	29.91	25.62	8.89
Overall gearing (times)	0.30	0.22	0.20
Interest coverage (times)	5.97	11.92	10.15

A: Audited; UA: Unaudited

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

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	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	-	-	-	Dec 2023	39.99	CARE A+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	50.00	CARE A+; Stable / CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (CWD) (17-Aug-18)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (CWD) (17-Aug-18)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (CWD) (17-Aug-18)
4	Fund-based - ST-EPC/PSC	ST	48.00	CARE A1+	-	1)CARE A1+ (12-Mar-21)	1)CARE A1+ (13-Mar-20) 2)CARE A1+ (02-Apr-19)	1)CARE A1+ (CWD) (03-Jan-19) 2)CARE A1+ (CWD) (17-Aug-18)
5	Term Loan-Long Term	LT	39.99	CARE A+; Stable	-	1)CARE A+; Stable (12-Mar-21)	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)
6	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	50.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (12-Mar-21)	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)Withdrawn (12-Mar-21)	1)CARE A1+ (13-Mar-20) 2)CARE A1+ (02-Apr-19)	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of 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: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: 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 CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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