

Flash Electronics India Private Limited

March 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	146.00 (Reduced from 148.99)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	50.26	CARE A2 (A Two)	Reaffirmed
Total Facilities	196.26 (Rs. One Hundred Ninety-Six Crore and Twenty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of long-term and short-term ratings continues to derive strength from FEIPL's long track record of operations, experienced promoters, and strategic location of the manufacturing facilities with proximity to original equipment manufacturers (OEM). The ratings also derive strength from the company's long-standing relationship with Bajaj Auto Limited (BAL) as a Tier-I supplier of auto components and consistent efforts of the company towards diversification of its revenue streams by addition of new clients and product portfolio globally.

The ratings further take note of the improvement in the operating performance during 9MFY21, despite the wash in Q1FY21, due to Covid related lockdowns and restrictions. During 9MFY21 (Unaudited; refers to a period from April 1 to December 31), the sales to few of its export customers has gradually ramped up, thereby aiding profitability, and diversifying the revenue stream. The growth trend continued during January and February 2021' with the capacities of the company almost fully booked. The same is expected to result in further improvement in operating performance. Furthermore, the company has repaid debt at its foreign subsidiary Flash Holdings GmbH (FHG), from the proceeds of the asset sale. Funds available over and above the same is expected to be utilized towards future development needs at Bing and working capital reduction at FEIPL. The company has also developed a range of products in the EV space, which is expected to clock higher margins, the ramp up of which will remain critical to the overall financial risk profile.

CARE also takes note of the fact that the company has planned for further de-leveraging during FY22, the same will be a key rating monitorable.

The rating strengths, however, remained constrained by the subdued performance during FY20, with lower than envisaged profitability from slower than expected ramp up of operations, delay in implementation of BS VI and Covid induced lockdown disrupting the operations during March 2020.

Furthermore, the ratings continued to remain constrained by the high debt levels, customer and sector concentration risk, competition from organized players and volume-driven business model. The ratings also continue to factor in need based financial support extended by FEIPL to FVMT (*in form of corporate guarantee extended by FEIPL to the term loans availed by FVMT*). CARE also takes note of the moratorium availed by the group for deferment of term loans repayments and interest falling due between March 20' –August 20'. Further, the interest on Compulsory Convertible Debentures (CCD's) is also deferred for FY21.

Outlook: Stable

The revision in the outlook assigned to the bank facilities of Flash Electronics India Private Limited (*FEIPL; Consolidated, hereafter referred to as the company/group*) to Stable from Negative factors in the completion of the asset monetization and lease back at its foreign step-down subsidiary BING Power Systems GmbH (BING) during January 2021 coupled with recovery in the domestic two-wheeler segment. Furthermore, the operational performance of the company has been steadily improving since July 2021, with Q3FY21 (October 1 – December 31) being higher than pre Covid levels.

Rating Sensitivities

Positive Factor:

- Sustained improvement in PBILDT margins above 13% - 14% led by improving operating leverages and changes in product mix
- Sustained improvement in the debt coverage indicators with PBILDT interest coverage above 5x and total debt to gross cash accruals lower than 2x
- Deleveraging of its balance sheet during FY22

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

- Diversification in its revenue stream from new customers thereby reducing customer concentration

Negative Factor:

- Any un- envisaged debt funded capital expenditure/delay in debt reduction plan leading to sustained deterioration in the capital structure beyond 3x.
- Sustained deterioration in the profitability with PBILDT margin below 8% on a sustained basis
- Sustained deterioration in total debt to gross cash accruals beyond 15x

Detailed description of the key rating drivers

Key Rating Strengths

Promoter background and expertise

The promoters of FEIPL (Vasdev and Kathuria family) have more than two decades of experience in manufacturing of electronics and DC Motors used in auto industry. The Founder and Managing Director, Mr. Sanjeev Vasdev, has an experience of over 25 years in the automobile sector. Pursuant to regulation for having mandatory flashers for two-wheelers in 1989 by regulatory authorities, and having been from engineering background, Mr. Vasdev made a strategic and timely decision to incorporate FEIPL which has seen unprecedented growth under his stewardship. Mr. Kathuria, is an engineering graduate from IIT Delhi and heads the Research and Development division at FEIPL.

Strategic location of manufacturing facilities

All the plants of the group have flexible manufacturing system in place, which enables it to manufacture various products for various OEMs. FEIPL's Chakan plant is specialized for automotive electrical & electronics manufacturing key products for various OEM's. FEIPL has also commenced production of precision forging, to serve the subsidiary company, FVMT. The forging facility is hence, strategically located adjacent to the facilities of FVMT. The manufacturing facilities are located in close proximity to the manufacturing facilities of BAL i.e. Chakan (Pune). In addition FEIPL has plants situated in NCR Faridabad having close proximity to India Yamaha motors. FEIPL has been a traditional supplier to BAL in two and three wheeler segment. Also, Pune being an auto hub enables the company to cater to other OEMs apart from BAL located in its vicinity such as Piaggio Vehicles Pvt Ltd, Bosch Automotive Electronics (I) Private Limited, Mahindra & Mahindra Limited, Royal Enfield, India Yamaha Motors Private Limited, Kawasaki Heavy Pte Ltd (Export) , BMW (Export) and Greaves Cotton Limited (Domestic).

Diversification of product portfolio with improved capacity utilization levels

The product portfolio of FEIPL is well diversified with over 22 main products across 4 major product groups in the auto components segment. The company also supplies electricity meters to State Electricity Boards (SEB's). The company is however gradually exiting the low margin energy meter business. In recent years, FEIPL has also added various new products including thermostats, rectifiers; with ignition coil, precision forged component , components for Fuel Injection required for BS VI migration like throttle body, , IACV, sensors' etc. in, FEIPL has made an entry in four wheeler segment, which will further broaden the product/ customer base. The company has incurred capex to move into forging of the transmission assembly parts/ Gear assembly parts, which are being supplied to Bajaj Auto, KTM (India) and Yamaha through its subsidiary FVMT. The group has also developed a range of products for the EV segment and has planned to start the pilot supplies for some major EV components during Q2FY22. *The ability of the company to ramp up sales of the same will be the key rating monitorable.*

Fund Infusion in the form of Compulsorily Convertible Debenture

Flash Electronics India Private Limited (FEIPL) has received total Rs.90 crore of fund infusion in the form of compulsory convertible debentures. Amount of Rs.75 crore was received on January 19, 2019 whereas remaining amount of Rs.15 crore was received on January 29, 2019, against the committed infusion of Rs.90 crore in Tranche -1 which has led to improvement in its capital structure. The same has been utilized for funding working capital requirements, purchasing of remaining shares of FVMT (making FVMT 100% subsidiary of FEIPL) and for capital expenditure.

Completion of the planned asset sale at its step-down subsidiary Bing

The management had planned to sell of the property of its step-down subsidiary Bing, located at Nuremberg, Germany and lease back a part of the same or move to a new location. Bing had executed a definitive agreement for Sale of Building with leaseback with Sirius for a consideration of Euro 13.1 Million. Further, the Notary has transferred full and final amount with which Sale transaction of Bing's property is now completed. Subsequently, the company has repaid debt at its foreign subsidiary Flash Holdings GmbH (FHG). The company has further planned for de-leveraging its balance sheet during FY22. *The successful completion of the debt reduction will be the key rating monitorable.*

Key Rating Weaknesses

Customer and sector concentration risk

FEIPL's revenue from BAL stood consistent above 50% during FY20. This high dependence on BAL for revenue exposes FEIPL to the fluctuation in 2W/3W sales of BAL. During FY20, major customers for FEIPL continued to include BAL, India Yamaha Motor Private Limited, TIDC India, Rinder India Pvt Ltd and Kawasaki. The top 5 customers accounted for approximately 65% - 70% of

TOI during the past three years. The high concentration on auto sector makes the company susceptible to any adverse change affecting the auto sector besides cyclicity of the same. Higher dependence on a single customer exposes FEIPL to customer concentration risk. However, sales from other customers have been ramping up as seen during 9MFY21. The ability of the company to diversify its revenue stream will remain the key rating monitorable.

Subdued operating performance during FY20 albeit improvement in 9MFY21

During FY20 the total operating income (TOI) of the company on a consolidated basis has seen a Y-o-Y decline of ~6% to Rs.816.62 crore. However, on standalone basis, TOI of the company has seen a Y-o-Y growth of 2.16% from Rs. 563.22 crore to Rs. 576.64 crore in FY20. The slowdown during FY20 was mainly on account of lower volumes during the Covid-19 related lockdowns during March 2020. The operations of the company commenced at the end of April 2020, at restricted levels. Furthermore, during FY20 the industry was also facing headwinds due to the transition to BS VI. The PBILDT margins during FY20 saw a 211 bp improvement to 10.03% in FY20 as against 7.92% in FY19. The same was mainly on account of favorable changes in the product mix coupled with increase in sales from higher margin products along with higher export orders and gain from forex fluctuations. Furthermore, FEIPL registered revenues of approximately Rs. 62.9 crore from its forging division. The group however, registered a loss of Rs.9.45 crore as against a loss of Rs.2.09 crore, mainly on account of high fixed capital charges and deferred tax adjustments for earlier years. GCA stood at Rs.33.20 crore as against Rs.28.50 crore. Interest cost increased to Rs.51.46 crore in FY20 as against Rs.42.48 crore during FY19 largely on account of increase in working capital borrowings. The profitability and cash accruals remained adequate, yet lower than the envisaged.

The sales from other customers like BMW, Yamaha, Rotax and Kawasaki have been slowly ramping up. With these orders the capacity is expected to fully utilized as the new business from these customers is expected to grow in the next 12-18 months as per the ramp-up plan. The same is also expected to improve profitability as the benefits of operating leverages kick in. During, Q3FY21, FEIPL (Standalone) has clocked a TOI of approximately Rs.203.4 crore, which is ~30% higher than Q3FY20. Further, FVMT booked a TOI of Rs.68.7 crore ~31% higher.

The ability of the company to increase contribution from higher margin products/customers thereby favorably affecting the blended profitability will be the key rating monitorable. Further, operations of foreign subsidiaries and FVMT turning profitable are critical from a credit perspective.

Moderate capital structure and debt coverage indicators

The total debt profile of the company consists of term loans, working capital borrowings and unsecured borrowings, as against a net-worth base of Rs. 147.49 crore as on March 31, 2020. The overall gearing ratio stood at 2.66x as on March 31, 2020 as against 2.39x as on March 31, 2019. The deterioration in gearing levels was mainly on account of lower net-worth from the accretion of net-losses to reserves. Furthermore, the last quarter repayment (for quarter ended March 2020) was deferred, since the company had availed moratorium.

During FY19, the company had received private equity investment to the tune of Rs.90.00 crore via CCD's, thereby improving the capital structure as compared to the previous years. However, on account of increased interest cost on the CCD's the PBILDT interest coverage ratio marginally declined and stood at 1.59x as at the end of FY20 (P.Y: 1.64x as at the end of FY19). The extent of the deterioration was however supported by improvement of PBILDT. Furthermore, total debt to GCA stood at 11.80x as at the end FY20 as against 11.99x in FY19.

The reduction in the total debt to GCA will be the key rating monitorable.

Risk arising out of fluctuation of raw material prices

The primary raw material required by FEIPL 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 mitigated by executing pass through arrangement with BAL for major raw material components (Aluminum and copper) especially which it imports, hence there is minimal risk associated with raw material price fluctuation.

Liquidity: Adequate

The working capital cycle for company remained moderate at 27 days in FY20 as against 33 days in FY19. The marginal improvement was on mainly on account of the lower collection period. The current ratio stood at 0.96x as on March 31, 2020 as compared to 1.10x as on March 31, 2019. The deterioration was mainly on account of higher CPLDT and customer advances. The average CC utilization stood moderate at 63% during the last 12 months ended December 31, 2020. Free cash and cash equivalents as on March 31, 2020 stood at Rs.18.95 crore as against Rs.5.26 crore as on March 31, 2019. Furthermore, cash flow from operations stood at Rs.100.33 crore as at the end of FY20 as against Rs.60.53 crore during the previous year.

The liquidity position is adequate with Cash and Cash reserves and unutilized CC limits of approximately Rs.36.58 crore as on December 31, 2020. Further, the group is focusing on cash preservation and is considering prepaying its installments for the next year. The company is expected to avail the Guaranteed Emergency Credit Line (GECL) of Rs.60 crore to ease liquidity. Furthermore, funds from the already completed asset sale is expected to be utilized for working capital requirement.

FEIPL continues to extend support to FVMT and FHG, the ramp up of operations of these entities will remain crucial.

Industry Outlook

Domestic wholesales of two-wheelers during 10M-FY21 shows the industry volumes have reached 80% of 10M-FY20 levels. Comparison for the same period for three-wheelers and passenger vehicles (excluding Tata Motors) depict a decline of 72.4% and 15.4% respectively, while for tractors shows a positive growth of 19.9%.

After the initial two months of FY21, which witnessed near nil level of sales due to lockdowns, the automotive sector has rebounded quickly. On a sequential basis, all segments have shown impressive growth and are inching closer to previous year's levels, except for three wheelers, which is expected to take another 6-7 months for a full demand recovery.

Approach – Consolidated

CARE has considered consolidated financials of FEIPL and its two direct subsidiaries and two indirect 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 the transmission assemblies, precision forged, machined component business and throttle bodies across various geographies. As a result of common promoters, similar line of business and inter-company transactions, consolidated view has been considered.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Auto Ancillary Companies](#)

[Factoring Linkages in Ratings](#)

Company Background

FEIPL, 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 Managing Director (MD). FEIPL is engaged in the manufacturing of A.C. Generators/magnetos assemblies, starter motors for two and three wheeler, Electronic Energy Meters, auto engineering components and other electrical and electronic components.

FEIPL as on date has four manufacturing units out of which two units are located in Faridabad, Haryana and two unit is at Chakan, Pune, Maharashtra.

Brief Financials (Rs. crore)	CONSOLIDATED (FEIPL + FVMT + FHG)	
	FY19 (A)*	FY20 (A)
Total operating income	868.12	816.62
PBILDT	69.97	81.93
PAT	-2.10	-9.45
Overall gearing (Including Acceptances / Creditors on LC) (times)	2.39	2.66
Overall gearing (Excluding Acceptances / Creditors on LC)	2.36	2.56
Interest coverage (times)	1.64	1.59

*restated.

Brief Financials (Rs. crore)	STANDALONE – FEIPL		
	FY19 (A)	FY20 (A)	9MFY21
Total operating income	563.22	576.64	409
PBILDT	50.41	57.77	44.4
PAT	11.96	4.28	4.7
Overall gearing (times)	0.90	1.00	0.78
Interest coverage (times)	2.24	1.89	1.87

A: Audited

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

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2026	100.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	46.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	50.26	CARE A2

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	100.00	CARE A-; Stable	1)CARE A-; Negative (17-Sep-20) 2)CARE A-; Negative (01-Jul-20)	1)CARE A-; Negative (17-Mar-20)	1)CARE A-; Negative (13-Mar-19)	1)CARE A-; Negative (28-Mar-18) 2)CARE A-; Negative (20-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	46.00	CARE A-; Stable	1)CARE A-; Negative (17-Sep-20) 2)CARE A-; Negative (01-Jul-20)	1)CARE A-; Negative (17-Mar-20)	1)CARE A-; Negative (13-Mar-19)	1)CARE A-; Negative (28-Mar-18) 2)CARE A-; Negative (20-Mar-18)
3.	Non-fund-based - ST-BG/LC	ST	50.26	CARE A2	1)CARE A2 (17-Sep-20) 2)CARE A2 (01-Jul-20)	1)CARE A2 (17-Mar-20)	1)CARE A2 (13-Mar-19)	1)CARE A2 (28-Mar-18) 2)CARE A2 (20-Mar-18)
4.	Fund-based - LT-Buyers Credit	LT	-	-	-	-	-	1)Withdrawn (20-Mar-18)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
i Margins on Fund based limits (<i>HDFC Bank</i>)	Margin of 25% on all inventory and book debts; debtors more than 90 days and obsolete inventory to be excluded for calculation of DP
ii. Margins on Non Fund based limits (<i>HDFC & Axis Bank</i>)	10% cash margin
iii Unsecured loans from promoters/group entities (<i>Axis Bank</i>)	Any unsecured loans (present or future) from the promoters as part of promoters contribution, would be subordinated to the credit facilities availed by the bank
iii. TOL/TNW (<i>Axis Bank</i>)	TOL/TNW up-to 3.5 times (consolidated)
iv. Current ratio (<i>Axis Bank</i>)	Current ratio greater than or equal to 1.2x (standalone)
v. DSCR (<i>Axis Bank</i>)	Minimum DSCR of 1.33x (standalone)
Vi Total term liability(TTL)/EBITDA (<i>Axis Bank</i>)	Maximum 3x (consolidated)
vii. Fixed asset coverage ratio (<i>Axis Bank</i>)	Minimum 1.10x (standalone)
vii. TTL/TNW	Maximum 3x (consolidated)
B. Non-financial covenants	
i Submission of Annual and Quarterly financial Statements (<i>Axis and HDFC Bank</i>)	Two copies of audited balance sheet to be submitted not later than 180 days from the close of a financial year
ii Submission of stock and debtors statement (<i>HDFC Bank</i>)	Monthly stock statements and book debt to be submitted within 20 days of month end. Quarterly financial statements to be submitted within 45 days from the date end of the quarter Annual financial statements - Provisional results within 90 days of financial year end - Audited results within 180 days of financial year end
iii Change in ownership/shareholding	Any change in shareholding will be with prior intimation

Annexure - 4: List of Subsidiaries consolidated

	Subsidiary	% shareholding
	Direct Subsidiaries	
1.	Flash Viven Machining Technologies Private Limited	100%
2.	Flash Holding GmbH	100%
	Step down subsidiaries of Flash Holding GmbH	
3.	Bing Power System GmbH	100%
4.	Bing Power Origin Kft	100%

Annexure – 5: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name: Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Name: Ms. Amita Yadav
Contact no.: 020 - 40009000
Email ID: amita.yadav@careratings.com

Business Development Contact

Name: Mr Aakash Jain
Contact no.: 020 - 40009090
Email ID: aakash.jain@careratings.com

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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.