Flash Electronics India Private Limited

March 17, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	138.99	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Reaffirmed**
Short term Bank Facilities	50.26	**CARE A2 (A Two)**	**Reaffirmed**
Total	**189.25 (Rs. One Hundred and Eighty Nine crore and Twenty Five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Flash Electronics India Private Limited (FEIPL; Consolidated, hereafter referred to as the company/group) 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 derives 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 takes note of the completion and commissioning of the major capital expenditure undertaken during the last 2-3 years to set up its gear related forging division in FEIPL and machining division under Flash Viven Machining Technologies Private Limited (FVMT), which commenced full-fledged operations in Q4FY19. The gradual ramp up of the same resulted in a growth in total operating income (TOI) during FY19 (refers to a period from April 1 to March 31) and H1FY20 (refers to a period from April 1 – September 31), profitability however continued to remain under pressure. The rating further derives strength from the improved, though leveraged capital structure, from the interest bearing Compulsory Convertible Debentures (CCD) issue during FY19. The group has planned to further deleverage, from proceeds of sale of land and building of its foreign step down subsidiary BING Power Systems GmBH (BING) during Q1FY21 (refers to period from April 1 – June 30). The successful completion of the transaction will subsequently reduce the debt. The completion of transaction within the anticipated timelines will remain critical from a credit perspective

The rating strengths, however, remained constrained by the continued moderation in the profitability margins from slower than expected ramp up of operations and higher interest costs, higher overall gearing levels, customer and sector concentration risk, competition from organized players and a 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)* and Flash Holdings GmBH (FHG).

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

Negative Factor:

- Delay in the sale of asset and debt reduction plan beyond Q1FY20
- Any un- envisaged debt funded capital expenditure/delay in debt reduction plan leading to sustained deterioration in the capital structure beyond 1.70x
- Sustained deterioration in the profitability with PBILDT margin below 8% and PAT margin below 1.50%
- Sustained deteriorating in total debt to gross cash accruals beyond 7x

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

Outlook: Negative

While the recent successful issue of CCD has improved the capital structure to some extent, the outlook continues to remain 'Negative' as profitability continues to remain under pressure due to lower than envisaged benefits of operating leverage and higher interest burden associated with said CCD. The achievability of envisaged benefits from recently completed capex and operational synergies from acquisition of Bing is yet to be seen. The outlook may be revised to 'Stable' if the company significantly improves its profitability and capital structure through accretion of profit to reserves by ramping up its operations and reduce its debt levels from successful completion of the asset sale within the stipulated timelines.

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 SEBs. 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.

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. The company further has an option to draw down Rs.60 crore at holding company level, within the time duration of 18 months from the issue of first tranche.

Planned asset sale and subsequent debt reduction

The management has 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. The company expects to close the deal and receive the proceeds from the sale by July'20. The proceeds will be utilized mainly towards reduction of existing debt and partly towards regular capex/new product developments. The management expects to reduce debt by Rs.75 crore from the sales proceeds. *The*

successful completion of the asset sale within the stipulated timelines and subsequent debt reduction will be crucial for the overall financial risk profile of the company and will be the key rating monitorable.

Key Rating Weaknesses

Customer and sector concentration risk

FEIPL's revenue from BAL stood consistent at 64% during FY19 as against 67% during FY18. This high dependence on BAL for revenue exposes FEIPL to the fluctuation in 2W/3W sales of BAL. During FY19, 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 more than 80% 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 cyclicality of the same. Higher dependence on a single customer exposes FEIPL to customer concentration risk.

Growth in sale of operations, albeit moderation in profitability margins

During FY19, the total operating income (TOI) of the group has seen a Y-o-Y growth of ~31% from Rs.660.50 crore in FY18 to Rs.866.90 crore in FY19, of which FEIPL contributed to approximately 65% during FY19 as compared to 63% during FY18. The growth was mainly on account of increase in volumes supported by increased capacity utilization from the major product segments. Further, FEIPL registered revenues of approximately Rs.24 crore from its forging division, which commenced operations in Q4FY19. FEIPL's auto segment revenue grew by ~10%, in the backdrop of a slowdown the industry performance. Consequently the PBILDT increased from Rs.58.27 crore in FY18 to Rs.68.66 crore in FY19. Further, due to increase in interest cost from issued CCD's and depreciation the group registered a net loss of Rs.2.10 crore in FY19. However, cash accruals remained adequate, yet lower than the envisaged, and stood at Rs.28.50 crore.

The PBILDT margin moderated by 159 bps during FY19 and stood at 7.92% as compared to 8.82% in FY18, mainly on account of lower than envisaged benefit from operating leverages with delay in ramp up of operations and delays in customer acquisitions in the higher margin export segment. Further, the moderation was also affected by an increase in cost of raw material coupled with a change in the product mix, with increase in sales from lower margin products. During H1FY20, (UA) FEIPL registered a TOI of Rs.286.6 crore, FVMT Rs.86.02 crore and FHG Rs.79.40 crore.

The group has orders from Yamaha, Rotax, Kawasaki and KTM. With these orders the capacity is expected to fully utilized as the new business from these customers grows 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.

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 turning profitable are critical from a credit perspective.

Improved capital structure albeit moderation in debt coverage indicators

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. The overall gearing ratio improved and stood at 2.40x as on March 31, 2019 as against 4.79x as on March 31, 2018. However, on account of moderation in profitability and increased interest cost on CCD's the PBILDT interest coverage ratio marginally declined and stood at 1.62x as at the end of FY19. Further, total debt to GCA moderated and stood at 13.38x in FY19 as against 12.32x in FY18.

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

Liquidity of FEIPL is characterized by a moderate cushion in accruals vis-à-vis repayment obligations. Gross cash accrual (GCA) is expected to be in the range of Rs.45 crore - Rs.50 crore as against the repayment obligations in FY20 to the tune of Rs.36

crore. However, going forward the repayment obligations are expected be in the range of Rs.39 crore - Rs.40 crore for the next three years against which FEIPL is expected to generate GCA in the range of Rs.85-100 crore.

The working capital cycle for company remained moderate at 42 days in FY19 has compared to 31 days during FY18. The marginal moderation was on mainly on account of higher collections mainly relating to the energy meter business. The group has financing limits of Rs.50 crore to manage its its requirements apart from its cash credit facility of Rs.41 crore. Further, during FY19, Rs.30 crore – Rs.35 crore of CCD's were utilized towards working capital reduction. The cash credit utilization remained low and stood at 32% during the last 12 months ended December 31, 2019 (as compared to ~63%). These unutilized bank lines provide additional liquidity cushion for the growing business needs. Liquid cash and investments stood moderate at Rs.6.65 crore as on March 31, 2019.

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

Industry Outlook

Auto sales decline continued in December 2019; registering a decline of 12.8% y-o-y in 9MFY20 (Apr-Dec) due to continued slowdown in economy and lower farm wage led by uneven rainfall, NBFC crisis, reduced turnaround time and increased load carrying capacity. The industry foresees revival only by Q2 FY21.

On the back of slowdown in auto segment and weak near term outlook, growth challenges remain for auto component industry. While new stringent emission norms, BS VI adoption means increased components per vehicle driving the demand for auto ancillaries, capex on technology advancement and product capabilities may continue to remain high exerting pressure on companies' cashflow.

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

Flash Electronics (India) Private Limited (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 three units are located in Faridabad, Haryana while one unit is at Chakan, Pune, Maharashtra.

Brief Financials (Rs. crore)	CONSOLIDATED (FEIPL + FVMT + FHG)		
	FY17 (A)	FY18 (A)	FY19 (A)
Total operating income	510.95	660.50	866.90
PBILDT	35.27	58.27	68.66
PAT	-6.12	7.44	-2.10
Overall gearing (times)	3.76	4.79	2.41
Interest coverage (times)	2.23	1.82	1.62

Brief Financials (Rs. crore)	STANDALONE – FEIPL		
	FY17(A)	FY18 (A)	FY19 (A)
Total operating income	334.00	415.21	563.22
PBILDT	33.52	44.82	50.41
PAT	9.55	18.05	11.96
Overall gearing (times)	1.47	1.85	0.90
Interest coverage (times)	4.94	3.30	2.24

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	-	-	March 2026	102.99	CARE A-; Negative
Fund-based - LT-Cash Credit	-	-	-	36.00	CARE A-; Negative
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	102.99	CARE A-; Negative	-	1)CARE A-; Negative (13-Mar-19)	1)CARE A-; Negative (28-Mar-18) 2)CARE A-; Negative (20-Mar-18)	1)CARE A-; Stable (16-Feb-17) 2)CARE A (12-Apr-16)
2.	Fund-based - LT-Cash Credit	LT	36.00	CARE A-; Negative	-	1)CARE A-; Negative (13-Mar-19)	1)CARE A-; Negative (28-Mar-18) 2)CARE A-; Negative (20-Mar-18)	1)CARE A-; Stable (16-Feb-17) 2)CARE A (12-Apr-16)
3.	Non-fund-based - ST-BG/LC	ST	50.26	CARE A2	-	1)CARE A2 (13-Mar-19)	1)CARE A2 (28-Mar-18) 2)CARE A2 (20-Mar-18)	1)CARE A2 (16-Feb-17) 2)CARE A2+ (12-Apr-16)
4.	Fund-based - LT-Buyers Credit	LT	-	-	-	-	1)Withdrawn (20-Mar-18)	1)CARE A-; Stable (16-Feb-17) 2)CARE A (12-Apr-16)

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 *(HDFC Bank)*	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 *(HDFC & Axis Bank)*	10% cash margin
Iii Unsecured loans from promotes/group entities *(Axis Bank)*	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 *(Axis Bank)*	TOL/TNW up-to 3.5 times (consolidated)
iv. Current ratio *(Axis Bank)*	Current ratio greater than or equal to 1.2x (standalone)
v. DSCR *(Axis Bank)*	Minimum DSCR of 1.33x (standalone)
Vi Total term liability(TTL)/EBITDA *(Axis Bank)*	Maximum 3x (consolidated)
vii. Fixed asset coverage ratio *(Axis Bank)*	Minimum 1.10x (standalone)
vii. TTL/TNW	Maximum 3x (consolidated)
B. Non-financial covenants	
I Submission of Annual and Quarterly financial Statements *(Axis and HDFC Bank)*	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 *(HDFC Bank)*	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%

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.*

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