Flash Electronics India Private limited

March 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	151.62	**CARE A-; Negative (Single A Minus; Outlook:Negative)**	**Reaffirmed**
Short term bank facilities	50.26	**CARE A2 (A two)**	**Reaffirmed**
Total	**201.88 (Rs. Two hundred one crore and eighty eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The reaffirmation of ratings 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 take a note of infusion of funds in the form of Compulsory Convertible Debentures (CCD) amounting to Rs. 90.00 crore during Q3FY19 (refers to October 1 to December 31) and Q4FY19 (refers to January 1 to March 31), which has improved FEIPL's capital structure as on January 31, 2019.

The rating strengths, however, continue to remain constrained by improved yet moderate profitability margins, increasing leverage levels, customer and sector concentration risk, competition from organized players and a volume-driven business model.

The ratings also take a note of capital expenditure over next 2-3 years which will be done for regular expansion and for fuel injection system. The company might rely on internal accruals to fund the capex along with an option to avail second round of CCD funding from existing investor.

The ability of the group to achieve envisaged growth in its scale of operations on the back of commissioning of its manufacturing capacity at Chakan under FEIPL and FVMT, improve profitability led by deriving operating leverage benefits, diversify its customer base are the key rating sensitivities. Operations of foreign entities in the group turning profitable is critical from credit perspective.

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 moderate due to lower than envisaged benefits of operating leverage. Achievability of envisaged benefits from recently completed and planned capex 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.

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.R.S.Vasdev, Chairman of FEIPL is a Mechanical Engineer graduated from London and had formally headed the motorcycle division of Yamaha Limited (formerly ESCORTS Limited) and retired as Vice President prior to joining FEIPL. 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 gears and transmissions assemblies, to serve the subsidiary

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

company, FVMT. The 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) and Faridabad (Gurgaon). 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) 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. In recent years, FEIPL has also added various new products including thermostats, rectifiers; with ignition coil, thermostat, throttle body, precision forged component and sensors' introduction, 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 would subsequently be supplied to Bajaj Auto through its subsidiary FVMTPL.

Fund Infusion in the form of Compulsorily Convertible Debenture

Flash Electronics India Private Limited (FEIPL) has received total Rs. 90.00 crore of fund infusion in the form of compulsory convertible debentures. Amount of Rs. 75.00 crore was received on January 19, 2019 whereas remaining amount of Rs.15.00 crore was received on January 29, 2019, against the committed infusion of Rs. 90.00 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.

Liquidity Analysis

The working capital cycle for company has improved to 31 days during FY18 as against 37 days during FY17 primarily on account of increase in creditors period which stood at 64 days during FY18 (vis-à-vis 57 days during FY17). Collection days and Inventory days both stood constant at 47 days during FY18. Current ratio stood at below unity at 0.96x as on March 31, 2018.

Average CC utilization stood at 63%. Cash and bank balance as on March 31, 2018 stood at Rs. 14.10 crore.

Key Rating Weaknesses

Improved yet moderate revenue growth and profitability margins

The group registered TOI of Rs.660.50 crore during FY18 registering a Y-o-Y growth of 29.27% from Rs.510.98 crore during FY17. Out of which FEIPL contributed 62.87% during FY18 which registered a marginal Y-o-Y growth 24.31% on account of increase in sale from automotive segment by 28.40% during FY18.

Consequently, The PBILDT margins during the year FY18 increased by 192 bps yet lower than the envisaged and stood at 8.82% vis-à-vis 6.90% (PY 17). Interest cost increased to Rs.32.04 crore during FY18 (vis-à-vis Rs.15.79 crore during FY17) largely on account of additional term loan availed for planned capex. Depreciation for the year stood at Rs. 31.24 crore. Further during the year company registered a net profit of Rs.7.44 crores (1.13%) against net loss of Rs.6.12 crore during FY17. Leading to the GCA (Gross cash accruals) of Rs.33.51 crore.

During 9MFY19 (UA) FEIPL and FVMT together achieved revenue of Rs. 536.96 crore.

Deterioration in capital Structure and debt coverage indicators as on March 31, 2018

On account of increasing term loan the debt equity ratio stood at 3.91x as on March 31, 2018 (vis-à-vis 3.15x as on March 31, 2017). Consequently, the overall gearing stood at 4.79x as on March 31, 2018 (vis-à-vis 3.76x as on March 31, 2017) on account of higher working capital borrowings. However improved GCA has led to minor improvement in debt protection matrix, total debt to GCA stood at 12.32x as on March 31, 2018 vis-à-vis 20.38x as on March 31, 2017. Total debt to PBILDT stood at 7.08x as on March 31, 2018 vis-à-vis 9.37x as on March 31, 2017.

Interest coverage deteriorated and stood at 1.82x during FY18 (vis-à-vis 2.23x during FY17). During FY19 company has received funding in the form of CCD amounting to Rs. 90.00 crore. With the said funding, debt to equity ratio and overall gearing ratio as on March 31, 2019 are expected to improve.

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.

Customer and sector concentration risk

FEIPL's revenue from BAL stood constant at 67.79% during FY18 as against 67.05% during FY17. This high dependence on BAL for revenue exposes FEIPL to the fluctuation in 2W/3W sales of BAL. Sales of energy meters further reduced during

FY18 and contributed to 4.85% as against 6.34% in FY17 and 9.17% in FY16. During FY18, major customers for FEIPL continued to include BAL, MSEDCL, India Yamaha Motor Private Limited, TIDC India, Jagdish Electronics (I) Private Limited, Dellorto India Private Limited, Rinder India Private Limited. The top 5 customers accounted for 83.89% of TOI during FY18 (vis-a-vis 88.59% during FY17) and top 10 customers accounting for 88.90% of TOI during FY18 (94.22% during FY17). 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. However, on the back of longstanding relationship, FEIPL continues to receive funding support from Bajaj Finance Limited. FEIPL enjoys a short term financing (PO financing limit) of Rs.24.00 crore from Bajaj Finance Limited, out of which Rs.24.00 crore was outstanding as on March 31, 2018. The PO financing facility carries relatively low interest rates when compared to CC limits.

Planned capital expenditure

The company is planning capital expenditure over next 2-3 years for regular expansion and for fuel injection system. The same can be funded through internal accruals as well as the company has an option to raise funds through another round of CCD issue.

Timely completion of the project with envisaged benefits and further improvement in debt protection metrics are key rating sensitivities.

Industry Outlook

The Two Wheelers segment dominates the market in terms of volume owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector.

The Ministry of Heavy Industries, Government of India has shortlisted 11 cities in the country for introduction of electric vehicles (EVs) in their public transport systems under the FAME (Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles in India) scheme. The government will also set up incubation centre for start-ups working in electric vehicles space.

India is also a prominent auto exporter and has strong export growth expectations for the near future. Automobile exports grew 20.78 per cent during April-November 2018. It is expected to grow at a CAGR of 3.05 per cent during 2016-2026. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the two-wheeler and four wheeler market in the world by 2020.

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.

Particulars of Subsidiary Companies of Flash Electronics (India) Private Limited (FEIPL)

	Direct Subsidiaries
1.	Flash Viven Machining Technologies Private Limited
2.	Flash Holding GmbH (Wholly owned subsidiary)
	Indirect Subsidiaries
3.	Bing Power System Gmbh
4.	Bing Power Origin Kft

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.

CONSOLIDATED (FEIPL + FVMT + Flash Holding GmBH)			
Brief Financials (Rs. crore)	**FY17 (A)**	**FY18 (A)**	**9MFY19 (UA)***
Total operating income	510.95	660.50	536.96
PBILDT	35.27	58.27	55.00
PAT	-6.12	7.44	1.29
Overall gearing (times)	3.76	4.79	-
Interest coverage (times)	2.23	1.82	1.89

**excluding Flash holding GmBH*

STANDALONE – FEIPL			
Brief Financials (Rs. crore)	**FY17(A)**	**FY18 (A)**	**9MFY19 (UA)**
Total operating income	334.00	415.21	416.90
PBILDT	33.52	44.82	40.30
PAT	9.55	18.05	9.00
Overall gearing (times)	1.47	1.85	-
Interest coverage (times)	4.94	3.30	2.61

A: Audited UA: Un-Audited

Status of non-cooperation with previous CRA – Not Applicable

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

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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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	115.62	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	115.62	CARE A-; Negative	-	1)CARE A-; Negative (26-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 (26-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 (26-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)	-

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