

Igarashi Motors India Limited

January 3, 2019

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|--|--|--|
| Long-term Bank Facilities | 52.58 (reduced from 67.29) | CARE A+ (Single A Plus) (Credit watch with developing implications) | Continues on credit watch with developing implications |
| Short-term Bank Facilities | 30.00 (reduced from 55.00) | CARE A1+ (A One Plus) (Credit watch with developing implications) | Continues on credit watch with developing implications |
| Total Facilities | 82.58 (Rupees Eighty Two crore and Fifty Eight lakh only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had earlier placed the ratings assigned to the bank facilities of Igarashi Motors India Limited (IMIL) on credit watch with developing implications in view of the proposed acquisition of the exports division of Agile Electric Sub Assembly Private Limited (AESPL) by IMIL. While the consideration for the above transaction has been paid out, the transfer of assets and liabilities from AESPL to IMIL is currently under process. CARE is monitoring developments in this regard and will take appropriate rating action when the greater clarity on the credit risk profile emerges.

The ratings continue to derive strength from its long operational track record, management team with experienced personnel, consistent operational performance albeit with drop in income in FY18 (refers to the period April 1 to March 31) and comfortable financial risk profile of the company. The ratings continue to factor in IMIL's position as one of the leading global market players in actuator motors and the support provided by the Igarashi group in the form of marketing of IMIL's products through its global offices.

The ratings, however, are constrained by IMIL's major focus on DC motors and sales to few reputed clients which is, however, partially offset by IMIL's long-standing relationship with these clients. The ratings also factor in the cyclical nature of the automobile industry and competition from large, well-established global players.

Going forward, ability of the company to diversify its clientele and enlarge its product offering thereby increasing its scale of operations and maintain its profit margins and capital structure would be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management team & long track record of operations: IMIL has well-established operations with track record of over two decades. The company started as a contract manufacturer and has since developed actuator motor, a type of DC motor, for the Electronic Throttle Control (ETC) application. IMIL has presence in Tier 2 of automotive industry and post the acquisition of AESPL's export division, IMIL has gained presence in Tier 3 and Tier 4 of the automobile business thereby integrating operations in a single company.

Mr P Mukund, the Managing Director of IMIL, an Engineering and Management graduate, has around 30 years of industry experience and is associated with the company since its inception.

Consistent operational performance albeit with drop in income in FY18: IMIL's total income registered moderate decline of 8% in FY18. This was due to a drop in the sales volumes due to delay in validation process of new programs which were expected to replace few old programs. The OEMs have made the validation process more stringent and the duration of the process has increased by around six months to one year. Further, the company's income was also impacted due to the appreciation of INR against the USD. The PBIDT margin had moderated in FY17 mainly on account of cost incurred for employee benefit and skills improvement programs undertaken by the company. In FY18, the operating profit margin is on similar level as FY16. During H1FY19 (refers to the period April 1 to September 30), IMIL registered total income of Rs.247 crore and PBIDT margin of 24.32%.

Strong relationship with reputed clients though with high sales concentration: IMIL derives majority of its revenues from a few large clients. These customers contributed to around 67% of IMIL's sales in FY18. IMIL's income stability and order

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

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 delivery chain.

Comfortable capital structure and strong debt protection metrics: IMIL's financial risk profile is marked by healthy cash accruals, low overall gearing and strong debt protection metrics. On account of higher cash accruals and lower debt levels, IMIL's overall gearing stood at 0.06x as on March 2018 (PY: 0.06x). TDGCA was 0.23 years as on March 2018 while interest coverage ratio stood at 50x in FY18 due to very low utilisation of bank funded working capital facilities.

Key Rating Weaknesses

Product concentration risk: IMIL earns a major portion (around 82% in FY18) of its income from a single product, namely, DC motors. However, the end use of such motors goes into various car models ranging from high-end segment to lower segment thereby reducing the risk to an extent.

Foreign currency exposure: The company imports a major portion of its raw material requirement. 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.

Liquidity profile

The company's operating cycle has remained in the range of 30-45 days over the last three years. There has been a slight elongation in the collection period for FY18 to 83 days vis-a-vis 66 days in FY17. The company had a cash balance and liquid investments of Rs.118 crore as on March 31, 2018. With the acquisition of AESPL, entirely by way of cash, there is expected to be a significant drop in the cash surplus. However, the liquidity position of the company is expected to remain comfortable aided by strong cash generation, low debt levels and modest capital expenditure.

The company's average utilisation of working capital limits for the past 12 months period ended November 2018 was 5.5%.

Analytical approach

Standalone

Applicable Criteria

[Criteria for placing rating on credit watch](#)

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

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

[Criteria for short term instruments](#)

[CARE's methodology for manufacturing companies](#)

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

[CARE's methodology for auto ancillary companies](#)

About the Company

IMIL, a BSE & NSE listed entity, was originally incorporated as CG Igarashi Motors Limited in January 1992 as a joint venture (JV) between Crompton Greaves Limited (CGL), India, Igarashi Electric Works (IEW), Japan and International Components Corporation (ICC), USA. In 2011, HBL Power Systems Ltd (HBL) through its subsidiary, Agile Electric Drives Technologies and Holding Pvt. Ltd (Agile Holding) acquired majority stake in IMIL. In the later years, Agile Holding merged with AESPL and as on September 30, 2018, AESPL holds 42.83% stake in IMIL, followed by Mr Mukund (Managing Director of IMIL), Igarashi Electric Works (HK) Ltd (IEHK) and Igarashi Electric Works Limited (IEWL) holding 21.15%, 7.94% and 3.07%, respectively, while the rest is held by the public.

IMIL is primarily engaged in the production and sale of permanent magnet DC motors and its subassemblies, mainly for the automotive sector specifically for passenger cars. The company generates majority of its sales from DC motors. The company manufactures DC motors of its own design, customer's design and also develops motors in association with its customers. Exports form a major portion (around 90%) of the sales of IMIL. IMIL also has a JV with Robert Bosch (9.21:90.79), namely, Bosch Electrical Drives India Pvt Ltd (BEDPL) which is into manufacturing of window lift actuators, wiper systems, engine cooling systems including fan motors and sun roofs for automobiles.

AESPL is engaged in the production of DC / AC motors and its subassemblies. IMIL supplies few sub-assemblies to AESPL and AESPL in-turn supplies parts which are used by IMIL in assembling its motor parts before exporting the same.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) | H1FY19 (P) |
|------------------------------|----------|----------|------------|
| Total operating income | 529 | 484 | 247 |
| PBILDT | 134 | 129 | 60 |
| PAT | 74 | 66 | 29 |
| Overall gearing (times) | 0.06 | 0.06 | 0.16 |
| Interest coverage (times) | 43.51 | 49.99 | 21.85 |

A: Audited; P: Provisional

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

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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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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

Annexure-1: Details of 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 - ST-Bills discounting/ Bills purchasing | - | - | - | 0.00 | Withdrawn |
| Non-fund-based - ST-Letter of credit | - | - | - | 0.00 | Withdrawn |
| Non-fund-based - ST-Letter of credit | - | - | - | 0.00 | Withdrawn |
| Fund-based - ST-EPC/PSC | - | - | - | 30.00 | CARE A1+ (Under Credit watch with Developing Implications) |
| Term Loan-Long Term | - | - | June 2021 | 52.58 | CARE A+ (Under Credit watch with Developing Implications) |

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 | - | - | - | - | 1)Withdrawn (10-Jan-17) | 1)CARE A+ (01-Mar-16) |
| 2. | Fund-based - ST-Bills discounting/ Bills purchasing | ST | - | - | 1)CARE A1+ (Under Credit watch with Developing Implications) (17-Aug-18) | 1)CARE A1+; Stable (08-Mar-18) | 1)CARE A+; Stable / CARE A1+ (10-Jan-17) | 1)CARE A+ / CARE A1+ (01-Mar-16) |
| 3. | Non-fund-based - ST-Letter of credit | ST | - | - | 1)CARE A1+ (Under Credit watch with Developing Implications) (17-Aug-18) | 1)CARE A1+ (08-Mar-18) | 1)CARE A1+ (10-Jan-17) | 1)CARE A1+ (01-Mar-16) |
| 4. | Non-fund-based - ST-Letter of credit | ST | - | - | 1)CARE A1+ (Under Credit watch with Developing Implications) (17-Aug-18) | 1)CARE A1+ (08-Mar-18) | 1)CARE A1+ (10-Jan-17) | 1)CARE A1+ (01-Mar-16) |
| 5. | Fund-based - ST-EPC/PSC | ST | 30.00 | CARE A1+ (Under Credit watch with Developing Implications) | 1)CARE A1+ (Under Credit watch with Developing Implications) (17-Aug-18) | 1)CARE A1+; Stable (08-Mar-18) | 1)CARE A+; Stable / CARE A1+ (10-Jan-17) | 1)CARE A+ / CARE A1+ (01-Mar-16) |
| 6. | Term Loan-Long Term | LT | 52.58 | CARE A+ (Under Credit watch with Developing Implications) | 1)CARE A+ (Under Credit watch with Developing Implications) (17-Aug-18) | 1)CARE A+; Stable (08-Mar-18) | 1)CARE A+; Stable (10-Jan-17) | 1)CARE A+ (01-Mar-16) |

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