

Igarashi Motors India Limited

January 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	31.86	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	35.00	CARE A1+ (A One Plus)	Reaffirmed
Long-term/ Short-term Bank Facilities	20.00	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable)/ (A One Plus)	Reaffirmed
Total Facilities	86.86 (Rupees Eighty Six crore and Eighty Six lakh only)		

Details of facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Igarashi Motors India Limited (IMIL) continue to derive strength from its long operational track record, management team with experienced personnel and comfortable financial risk profile. The ratings also take note of 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.

However, the rating continues to be constrained by the concentration of IMIL's revenues from a single product and 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, the ability of the company to diversify its clientele and enlarge its product offering and maintain its margins would be the key rating sensitivities.

Detailed description of the key rating drivers

IMIL has well-established operations with operational track record of over 20 years. Mr K K Nohria, the Chairman, has over 55 years of experience in the industry. 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.

The total income of IMIL grew by 13.87% year-over-year from Rs.08.86 crore in FY15 to Rs.465.56 crore in FY16 (refers to the period April 1 to March 31), despite the moderate growth in the global automotive industry. Furthermore, in order to cater to the increasing demand from its major customers, during FY16, the company increased its production capacity by 4 million motors per year.

The PBILDT margin of IMIL improved significantly in FY16, mainly on account of improved cost management practices adopted by IMIL. The company imports its raw materials – mainly copper & steel with steel constituting a major portion. To insulate itself from any price increase, IMIL generally draws up an annual price contract with all its clients.

IMIL derives majority of its revenues from a few large clients. These customers contribute to around 78% of IMIL's sales revenue. 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 delivery chain. Hence, the client concentration risk is mitigated to a certain extent.

IMIL earned 88% of net sales in FY16 from a single product line, namely, DC motor for ETC (Electronic Throttle Control) application. However, as these motors are used in several car models ranging from luxury car segment to lower segment, the product concentration risk is mitigated to an extent.

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

With majority of its raw materials being imported, IMIL also faces foreign currency exchange risk. During FY16, the company met 88% (FY15: 86%) of its raw material requirement through imports. However, as the company exports most of its products, it has a natural hedge (For FY16, the total exports were Rs.429.03 crore & total imports were Rs.232.86 crore in FY16).

As the entire sales of IMIL cater to the auto industry, its performance is susceptible to the cyclical nature of the industry. Furthermore, concentration of revenues from few clients and single line of product though stand a chance to restrict the business development of the company to an extent, the criticality associated with the end product is likely to ensure growth in sales for IMIL in the medium term. Ability of the company to diversify its clientele, continue to maintain its growth momentum, enlarge its product offering and maintain its profit margins and financial profile would be critical to its future prospects.

Analytical approach: Standalone

Applicable Criteria

[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 Agile Electric Sub Assembly Private Limited (AESPL) and as on December 31, 2016, AESPL holds 41.92% stake in IMIL, followed by Mr Mukund (Managing Director of IMIL), Igarashi Electric Works (HK) Ltd (IEHK) and Igarashi Electric Works Limited (IEWL) holding 21.75%, 8.17% and 3.16%, 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 motor used in actuator application/systems. The company manufactures DC motors of its own design, customer's design and also develops motors in association with its customers. As on March 31, 2016, the company has an installed capacity of 27.5 million electric motors per annum at its facility in Chennai.

AESPL, the holding company, is engaged in the production of DC motor subassemblies. The company has also ventured into production of AC motor and its subassemblies in FY13. While IMIL supplies few intermediate subassemblies to AESPL, AESPL in-turn supplies parts which are used by IMIL in assembling its motor parts before exporting the same.

Exports form a major portion of the sales of IMIL and during FY16 the company generated 92% of its total income from exports (PY: 91%) and the rest was contributed by the domestic market.

IMIL also has a JV with Robert Bosch (12:88), 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.

During FY16, IMIL generated a total operating income of Rs.466 crore and a PAT of Rs.64 crore as against total operating income of Rs.409 crore and PAT of Rs.49 crore in FY15. For the 6 months ended September 30, 2016 the company reported a total operating income of Rs.263 crore and a PAT of Rs.38 crore.

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.

Analyst Contact:

Name: Mr Harihara Subramanian C
Tel: 044-2849 7811
Mobile: +91 97899 98514
Email: harihara.subramanian@careratings.com

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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 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	-	-	-	-	Withdrawn
Fund Based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE A+; Stable / CARE A1+
Non-Fund Based - ST-Letter of credit	-	-	-	20.00	CARE A1+
Non-Fund Based - ST-BG/LC	-	-	-	15.00	CARE A1+
Fund Based - LT/ ST-CC/Packing Credit	-	-	-	10.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term	-	-	November 2019	31.86	CARE A+; Stable

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	-	-	-	1)CARE A+ (01-Mar-16)	1)CARE A (14-Jan-15)	1)CARE BBB+ (24-Jan-14) 2)CARE BBB+ (08-Nov-13) 3)CARE BBB+ (SO) (Under Credit Watch) (30-Jul-13)
2.	Fund Based - LT-Working Capital Limits	LT	-	-	-	-	1)Withdrawn (14-Jan-15)	1)CARE BBB+ (24-Jan-14) 2)CARE BBB+ (08-Nov-13) 3)CARE BBB+ (SO) (Under Credit Watch) (30-Jul-13)
3.	Fund Based - LT/ ST-EPC/PSC	LT/ST	-	-	-	-	1)Withdrawn (14-Jan-15)	1)CARE BBB+ / CARE A2+ (24-Jan-14) 2)CARE A2+ (08-Nov-13) 3)CARE A3+ (Under Credit Watch) (30-Jul-13)
4.	Fund Based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	10.00	CARE A+; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (01-Mar-16)	1)CARE A / CARE A1 (14-Jan-15)	1)CARE BBB+ / CARE A2+ (24-Jan-14) 2)CARE A2+ (08-Nov-13)

								3)CARE A3+ (Under Credit Watch) (30-Jul-13)
5.	Non-Fund Based - ST-Letter of credit	ST	20.00	CARE A1+	-	1)CARE A1+ (01-Mar-16)	1)CARE A1 (14-Jan-15)	1)CARE A2+ (24-Jan-14) 2)CARE A2+ (08-Nov-13) 3)CARE A3+ (Under Credit Watch) (30-Jul-13)
6.	Non-Fund Based - ST-BG/LC	ST	15.00	CARE A1+	-	1)CARE A1+ (01-Mar-16)	1)CARE A1 (14-Jan-15)	1)CARE A2+ (24-Jan-14) 2)CARE A2+ (08-Nov-13) 3)CARE A2+ (SO) (Under Credit Watch) (30-Jul-13)
7.	Fund Based - LT/ ST-CC/Packing Credit	LT/ST	10.00	CARE A+; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (01-Mar-16)	1)CARE A / CARE A1 (14-Jan-15)	1)CARE BBB+ / CARE A2+ (24-Jan-14) 2)CARE BBB+ / CARE A2+ (08-Nov-13) 3)CARE BBB+ (SO) / CARE A2+ (SO) (Under Credit Watch) (30-Jul-13)
8.	Term Loan-Long Term	LT	31.86	CARE A+; Stable	-	1)CARE A+ (01-Mar-16)	1)CARE A (14-Jan-15)	1)CARE BBB+ (24-Jan-14) 2)CARE BBB+ (08-Nov-13)

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Mehul Pandya**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,

Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**

9th Floor, Pride Kumar Senate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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