

## Igarashi Motors India Limited

March 08, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	67.29 (enhanced from 31.86)	<b>CARE A+; Stable</b> <b>(Single A Plus;</b> <b>Outlook: Stable)</b>	Reaffirmed
Short-term Bank Facilities*	55.00	<b>CARE A1+</b> <b>(A One Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>122.29</b> <b>(Rupees One Hundred and</b> <b>Twenty Two crore and Twenty</b> <b>Nine lakh only)</b>		

\*The company's bank facilities have been reclassified from long-term/short-term bank facilities to short-term bank facilities  
 Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

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, consistent operational performance, comfortable financial risk profile and healthy liquidity position 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, continue to be 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, the ability of the company to diversify its clientele and enlarge its product offering while maintaining its profit margins and capital structure would be the 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. Along with its holding company, Agile Electric Sub Assembly Private Limited (AESPL), the group caters to Tiers 2, 3 & 4 of the automobile manufacturing 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.

**Consistent operational performance:** IMIL's total income registered y-o-y growth of 13.52% in FY17 (refers to the period April 1 to March 31) primarily due to growth in sales volumes of motors. During 9MFY18 (refers to the period April 1 to December 31), the company reported a marginally lower income of 7% at Rs.363.27 crore vis-à-vis the previous 9-month period ended December 2017, mainly on account of appreciation of Rupee against the Dollar. Further, there was also a marginal drop in the sales volumes during the period due to stringent validation process from IMIL's OEMs which delayed the start of production at its new production lines which were set up during the end of FY17. IMIL reported PBDIT margin of 25.36% in FY17 (PY: 26.21%) and 26.13% in 9MFY18.

**Strong relationship with reputed clients though with high sales concentration:** IMIL derives majority of its revenues from a few large clients. These customers contribute to around 75% of IMIL's sales revenue. IMIL's income stability and order

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://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. Besides these large clients, IMIL also sells subassemblies to its group company, AESPL.

**Comfortable capital structure and strong debt protection metrics:** IMIL's financial risk profile is marked by healthy cash accruals, low overall gearing and robust debt protection metrics. During the past two years ended March 2017, the company reported Gross Cash Accruals (GCA) of Rs.83 crore in FY16 and Rs.97 crore in FY17. For the 9MFY18, the company reported a GCA of Rs.68 crore.

#### Key Rating Weaknesses

**Product concentration risk:** IMIL earned 89% of the net income in FY17 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.

**Industry outlook:** Global automotive industry is characterized by long development and validation cycle period, with the global car manufacturers focusing more on core activities like design, development, assembling and marketing while the non-core activity is outsourced to low cost geographies. The auto industry is also inherently vulnerable to economic cycles and is highly sensitive to interest rates and fuel prices. Further, with changing customer preferences and entry of electric passenger cars, ability of the manufacturers to adapt to the changing market scenario would be critical from a business perspective.

#### Analytical approach:

Standalone

#### Applicable Criteria

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

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

[Rating methodology: Factoring linkages in rating](#)

[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, 2017, 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 motors. The company manufactures DC motors of its own design, customer's design and also develops motors in association with its customers. As on December 31, 2017, the company has an installed capacity of 33.3 million electric motors per annum at its facility in Chennai. Exports form a major portion of the sales of IMIL and during FY17 the company generated 90% of its net sales from exports and the rest was contributed by the domestic market. 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. AESPL is undergoing a process of amalgamation with IMIL and the share exchange ratio has been decided as 35 equity shares of IMIL (Rs.10 each fully paid up) for every 128 equity shares of AESPL (Rs.10 each fully paid up). However, this is not expected to have any significant change in the overall operations. Further, the amalgamation is also not expected to bring in any change in the management team as Igarashi group along with Mr Mukund will continue to oversee the operations of the merged entity.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)	9MFY18 (P)
Total operating income	466	529	363
PBILDT	122	134	95
PAT	64	74	50
Overall gearing (times)	0.18	0.06	NA
Interest coverage (times)	19.50	43.51	72.47

A: Audited; P: Provisional; NA – not available

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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	-	-	-	4.00	CARE A1+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	20.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A1+
Fund-based - ST-EPC/PSC	-	-	-	16.00	CARE A1+; Stable
Term Loan-Long Term	-	-	June 2021	67.29	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (10-Jan-17)	1)CARE A+ (01-Mar-16)	1)CARE A (14-Jan-15)
2.	Fund-based - LT-Working Capital Limits	-	-	-	-	-	-	1)Withdrawn (14-Jan-15)
3.	Fund-based - LT/ ST-EPC/PSC	-	-	-	-	-	-	1)Withdrawn (14-Jan-15)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	4.00	CARE A1+; Stable	-	1)CARE A+; Stable / CARE A1+ (10-Jan-17)	1)CARE A+ / CARE A1+ (01-Mar-16)	1)CARE A / CARE A1 (14-Jan-15)
5.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A1+	-	1)CARE A1+ (10-Jan-17)	1)CARE A1+ (01-Mar-16)	1)CARE A1 (14-Jan-15)
6.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1+	-	1)CARE A1+ (10-Jan-17)	1)CARE A1+ (01-Mar-16)	1)CARE A1 (14-Jan-15)
7.	Fund-based - ST-EPC/PSC	ST	16.00	CARE A1+; Stable	-	1)CARE A+; Stable / CARE A1+ (10-Jan-17)	1)CARE A+ / CARE A1+ (01-Mar-16)	1)CARE A / CARE A1 (14-Jan-15)
8.	Term Loan-Long Term	LT	67.29	CARE A+; Stable	-	1)CARE A+; Stable (10-Jan-17)	1)CARE A+ (01-Mar-16)	1)CARE A (14-Jan-15)

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