

## Igarashi Motors India Limited

March 13, 2020

## Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	76.14 (reduced from 93.30)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	60.00	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
<b>Total Facilities</b>	<b>156.14</b> <b>(Rs. One hundred fifty six crore and fourteen lakh only)</b>		

*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, comfortable profit margins albeit a moderation in FY19 (refers to the period April 1 to March 31) and comfortable capital structure. 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 moderation in operational performance in FY19 due to global slowdown in the auto industry, 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 clients, development of BLDC motors and acquisition of AESPL's export division which expands IMIL's product profile.

**Rating Sensitivities****Positive Factors**

- Ability to grow its scale of operations beyond Rs.1,000 crore with a more diversified product profile and end-use applications.
- Increase in PBILDT margin above 25% on a sustained basis.

**Negative Factors**

- Any significant drop in the overall sales volumes and profitability margins.
- Any large capital expenditure plans leading to a deterioration in leverage with overall gearing exceeding 0.5x.

**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. Started as a contract manufacturer, the company had developed of actuator motor, a type of DC motor, for the ETC (Electronic Throttle Control) application. IMIL has presence in Tier 2 of auto business by manufacturing electric motors and now with the acquisition of AESPL's (Agile Electric Sub-Assembly Private Limited) 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, MD (up to September 30, 2019), an engineering and management graduate, has around 30 years of industry experience and is associated with the company since its inception.

Mr P Mukund has resigned as MD from September 30, 2019 and is continuing as a Consultant with the company. Mr Chandrasekaran, has been appointed as Managing Director and was earlier the Chief Financial Officer of the company.

***Strong relationship with reputed clients though with high sales concentration***

IMIL derives majority of its revenues from a few large clients. 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. Further, due to the critical application of the products manufactured by IMIL, the risk of the customers switching over to the competitors is very minimal.

***Comfortable profit margins albeit a moderation in FY19***

<sup>3</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

The company has consistently maintained high profit margins, upwards of 25% in the last few years though there was a decline in FY19. During FY19, the profitability margin at PBILDT level has moderated to around 22% due to reduction in volume of production. During 9MFY20, IMIL registered a total income of Rs.425.45 crore, PBILDT of Rs.73.31 crore and PAT of Rs.27.74 crore.

**Comfortable capital structure**

IMIL's financial risk profile is marked by healthy cash accruals and an overall gearing of 0.28x as on March 31, 2019. The interest coverage ratio stood at 8.99 times and total debt to gross cash accruals of 1.15 years as on March 31, 2019. Nevertheless, IMIL's capital structure is expected to remain comfortable on account of the company's large net-worth base and aided by steady accruals.

**Key Rating Weaknesses*****Moderation in operational performance in FY19 due to global slowdown in the auto industry***

The company has been constantly improving its operational performance over the years which however has seen a dip in FY19 and the current year. The drop is primarily on account of the slowdown in the auto industry globally. Total operating income dropped by 10.34% in FY19 and volumes of motors sold also dropped by around 9% in FY19 over FY18.

IMIL mainly manufactures & sells DC motors for automobile applications, majorly for passenger cars. The company has been supplying these motors to Tier I suppliers of leading automobile manufacturers in the world.

***De-risking segment concentration***

While the company started off with the TAM (Torque Actuator Motors) application and that continues to remain the main stay of the business, the company has consciously moved to other applications and developed the CAM (Comfort Actuator Motor) motors. While TAM has application primarily in the Internal Combustion Engine driven automobiles, the CAM application is engine technology neutral and will find application even in electric vehicles. CAM motors supplied by IMIL presently cater to seat and steering adjustment applications. Further to de-risk from the automotive applications, the company launched BLDC (Brushless DC) motors for application in the consumer durable segment like ceiling and pedestal fans given the long-standing association of its top management with the sector. The BLDC motors have varied applications and the company has a capacity of 1 million units. BLDC motors are smaller in size, more efficient, noiseless and generate higher ranges of speed when compared to a brush motor. The company has commenced sale of BLDC motors in the current year for a key client and is expected to scale up volumes going forward with the same OEM apart from pitching the same with other prospective customers.

***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 natural hedge. IMIL also hedges a portion of its unhedged foreign currency exposure by entering into forward contracts.

**Liquidity analysis – Strong**

Liquidity is marked by strong gross cash accruals of Rs.102.89 crore in FY19 as against repayment of Rs.60.17 crore and cash balance & liquid investments of Rs.2.56 crore and Rs.12.54 crore respectively as on March 31, 2019. With gearing of 0.28x times as of March 31, 2019, the issuer has additional headroom to raise additional debt. Its unutilised WC limits are more than adequate to meet its working capital needs. Average working capital utilisation for the last 12 months stood at 58.56%. The current ratio of the company stood at 1.30 as at March 31, 2019 and an operating cycle of 77 days.

**Analytical approach: Standalone****Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

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

[Rating Methodology - Auto Ancillary Companies](#)

**About the Company**

Igarashi Motors India Limited (IMIL) was originally incorporated as CG Igarashi Motors Limited in January 1992 as a JV between Crompton Greaves Limited (CGL), India, Igarashi Electric Works Limited (IEWL), Japan and International Components Corporation (ICC), USA.

Over the years the shareholding pattern has undergone multiple changes and as on date AESPL (Agile Electric Sub-Assembly Private Limited), Igarashi Electric Works H.K. Ltd and Igarashi Electric Works Limited (Japan) together holds 75% of the stake in the company.

IMIL is primarily engaged in the production and sale of permanent magnet DC motors and its sub-assemblies, seat applications and motor accessories mainly for automotive sector specifically for passenger cars. These are generally classified as Torque actuator Motors (TAM). Over the years the company has also developed DC motors for various applications broadly under the head of Comfort actuator motors (CAM) which are used in seat applications, steering and window. To de-risk the business from being entirely automotive the company has developed the Brushless DC motor (BLDC) which is used in consumer applications like fans and has started supplying to customers from the current financial year. The company's manufacturing facilities are based out of Chennai, Tamil Nadu.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total income	703.78	631.00
PBILDT	190.86	141.40
PAT	95.26	57.42
Overall gearing (times)	0.35	0.28
Interest coverage (times)	14.56	8.99

A: Audited

**Note:**

1. The figures of FY18 have been restated to include the income, expense, assets and liabilities of export division of AESPL which has been acquired by IMIL as a going concern with effect from October 1, 2018.

**Status of non-cooperation with previous CRA – Not Applicable**

**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 - ST-EPC/PSC	-	-	-	30.00	CARE A1+
Term Loan-Long Term	-	-	November 2023	76.14	CARE A+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	20.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	30.00	CARE A1+

**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	-	-	-	-	-	1)Withdrawn (10-Jan-17)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (Under Credit watch with	1)CARE A1+; Stable (08-Mar-18)	1)CARE A+; Stable / CARE A1+ (10-Jan-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
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						Developing Implications) (17-Aug-18)		
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (Under Credit watch with Developing Implications) (17-Aug-18)	1)CARE A1+ (08-Mar-18)	1)CARE A1+ (10-Jan-17)
4.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1+ (Under Credit watch with Developing Implications) (17-Aug-18)	1)CARE A1+ (08-Mar-18)	1)CARE A1+ (10-Jan-17)
5.	Fund-based - ST-EPC/PSC	ST	30.00	CARE A1+	1)CARE A1+ (02-Apr-19)	1)CARE A1+ (Under Credit watch with Developing Implications) (03-Jan-19) 2)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)
6.	Term Loan-Long Term	LT	76.14	CARE A+; Stable	1)CARE A+; Stable (02-Apr-19)	1)CARE A+ (Under Credit watch with Developing Implications) (03-Jan-19) 2)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)
7.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	20.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (02-Apr-19)	-	-	-
8.	Non-fund-based - ST-	ST	30.00	CARE	1)CARE A1+	-	-	-

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
	BG/LC			A1+	(02-Apr-19)			

**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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##### About CARE Ratings:

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