Igarashi Motors India Limited

April 02, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long-term Bank Facilities	93.30 (enhanced from 52.58)	**CARE A+ ; Stable (Single A Plus; Outlook: Stable)**	Removed from credit watch; Rating Reaffirmed
Short-term Bank Facilities	60.00 (enhanced from 30.00)	**CARE A1+ (A One Plus)**	Removed from credit watch; Rating Reaffirmed
Long/ Short term Bank Facilities	20.00	**CARE A+ ; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	Assigned
Total Facilities	**173.30 (Rupees One hundred and seventy three crore and thirty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had earlier placed the ratings of Igarashi Motors India Limited (IMIL) under 'credit watch with developing implications' on account of the acquisition of the exports division of Agile Electric Sub Assembly Private Limited (AESPL) and the possible impact of the same on IMIL's credit profile. The acquisition has since been completed and the payout from IMIL was Rs.140 crore to AESPL. The assets and liabilities of AESPL have since been transferred to IMIL. With the completion of the transaction, while the debt on the books of IMIL is expected to increase and the cash position decline in the near term, it is expected to remain comfortable in the medium term aided by strong cash generation. Further, the acquisition is expected to bring in synergies in terms of cost and moderately diversify the product profile of IMIL.

The ratings continue to derive strength from IMIL's long operational track record, management team with experienced personnel and consistent operational performance albeit with drop in income in FY18 (refers to the period April 1 to March 31). The ratings also 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 and acquisition of AESPL's export division which would expand IMIL's product profile. 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 further 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.

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

The acquisition of AESPL's export division is expected to add to IMIL's scale of operations going forward. However, there may be a moderation in the PBIDT margin on account of the product profile of the acquired division. During 9MFY19, IMIL registered total income of Rs.486 crore and PBIDT margin of 24.17%.

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 book position depends heavily on the orders from these large customers. The customer concentration is expected to continue even post the acquisition of AESPL's export division as AESPL also largely catered to the same global auto OEMs. 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. The acquisition of AESPL's export division is expected to leverage IMIL's capital structure in the near term as around Rs.70 crore debt has been availed by IMIL for the increase in operations. Nevertheless, the capital structure is expected to remain comfortable.

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. Further, the completion of acquisition of AESPL's export division would reduce the product concentration risk as a different set of products would be added to IMIL's offering viz comfort actuator motors, sub-assemblies and parts for DC motors.

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. Post the acquisition of AESPL's export division (funded entirely by way of cash), IMIL's cash and liquid investments declined from Rs.118 crore as on March 31, 2018 to Rs.8 crore as on December 31, 2018. However, the liquidity position of the company is expected to remain comfortable aided by strong cash generation, relatively 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

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 June December 310, 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.

AESPL, is engaged in the production of DC / AC motors and its subassemblies. AESPL supplies some parts to by IMIL (~10% of total income in FY18) which are used in assembling the motor parts before export. The acquisition of the exports division of AESPL by IMIL has been completed and came into effect from October 1, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	9MFY19 (P)
Total operating income	529	484	486
PBILDT	134	129	118
PAT	74	66	50
Overall gearing (times)	0.06	0.06	0.25
Interest coverage (times)	43.51	49.99	10.13

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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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-EPC/PSC	-	-	-	30.00	CARE A1+
Term Loan-Long Term	-	-	June 2021	93.30	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 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)Withdrawn (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)	1)CARE A+ / CARE A1+ (01-Mar-16)
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)	1)CARE A1+ (01-Mar-16)
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)	1)CARE A1+ (01-Mar-16)
5.	Fund-based - ST-EPC/PSC	ST	30.00	CARE A1+	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)	1)CARE A+ / CARE A1+ (01-Mar-16)

6.	Term Loan-Long Term	LT	93.30	CARE A+; Stable	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)	1)CARE A+ (01-Mar-16)
7.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	20.00	CARE A+; Stable / CARE A1+	-	-	-	-
8.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A1+	-	-	-	-

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