

Igarashi Motors India Limited

August 17, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	67.29	CARE A+ (Single A Plus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Short-term Bank Facilities	55.00	CARE A1+ (A One Plus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Total Facilities	122.29 (Rupees One Hundred Twenty Two crore and Twenty Nine lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Igarashi Motors India Limited (IMIL) have been placed under 'credit watch with developing implications' on account of the proposed acquisition of the exports division of Agile Electric Sub Assembly Private Limited (AESPL) by IMIL by way of slump sale for a consideration of around Rs.140.58 crore. CARE had earlier factored in AESPL's proposed amalgamation with IMIL, which is currently pending for approval from NCLT. While IMIL continues to pursue with the merger process, the possible impact of the above mentioned acquisition on the credit profile of the company is yet to be clear. CARE is monitoring the developments in this regard and will take appropriate rating action when greater clarity emerges.

The ratings continue to derive strength from IMIL's 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 also 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, ability of the company to diversify its clientele and enlarge its product offering while maintaining 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. Along with its holding company, 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: The company has been consistently reporting growth in total income in the past years. During FY17 (refers to the period April 1 to March 31), the total income of IMIL registered y-o-y growth of 13.52% primarily due to growth in sales volumes of motors. During FY18, IMIL reported a total income of Rs.484.13 crore, a marginal decline of 8.86% as compared to FY17. During Q1FY19 (refers to the period April 1 to June 30), the company reported total income of Rs.115.84 crore. The company has reported stable PBIDT margins in the past in the range of 23%- 26%. During FY18, IMIL reported PBIDT margin of 26.59% (PY: 25.36%) and 25.13% in Q1FY19.

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 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. Besides these large clients, IMIL also sells subassemblies to its group company, AESPL.

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

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 2018, the company reported Gross Cash Accruals (GCA) of Rs.97 crore in FY17 and Rs.90 crore in FY18. For Q1FY19, the company reported a GCA of Rs.20 crore. Further, IMIL had cash/liquid investment of around Rs.118 crore as on March 2018.

Key Rating Weaknesses

Product concentration risk: IMIL earns a major portion (around 90%) 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.

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, ride sharing, private cabs, etc. ability of the manufacturers to adapt to the changing market scenario would be critical from a business perspective.

Analytical approach:

Standalone

Applicable Criteria

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

[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 AESPL and as on June 30, 2018, AESPL holds 44.04% 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. 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 manufacturing of sub-assemblies of DC motors, pressed parts, moulded parts, precision parts (shafts), Head Lamp Leveller Actuator, setting up of sub-assembly lines and manufacturing of machine tools. The company manufactures DC motors of its own design, customer's design and also develops motors in association with its customers. It has two manufacturing locations in Kancheepuram district. It exports majority of its products to leading global Tier-I manufacturers.

AESPL is currently undergoing a process of amalgamation with IMIL. However, it 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)	FY17 (A)	FY18 (A)	Q1FY19 (P)
Total operating income	529	484	116
PBILDT	134	129	29
PAT	74	66	14
Overall gearing (times)	0.06	0.06	NA
Interest coverage (times)	43.51	49.99	44.11

A: Audited

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.

Disclaimer

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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	-	-	-	4.00	CARE A1+ (Under Credit watch with Developing Implications)
Non-fund-based - ST-Letter of credit	-	-	-	20.00	CARE A1+ (Under Credit watch with Developing Implications)
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A1+ (Under Credit watch with Developing Implications)
Fund-based - ST-EPC/PSC	-	-	-	16.00	CARE A1+ (Under Credit watch with Developing Implications)
Term Loan-Long Term	-	-	June 2021	67.29	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	4.00	CARE A1+ (Under Credit watch with Developing Implications)	-	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	20.00	CARE A1+ (Under Credit watch with Developing Implications)	-	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	15.00	CARE A1+ (Under Credit watch with Developing Implications)	-	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	16.00	CARE A1+ (Under Credit watch with Developing Implications)	-	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	67.29	CARE A+ (Under Credit watch with Developing Implications)	-	1)CARE A+; Stable (08-Mar-18)	1)CARE A+; Stable (10-Jan-17)	1)CARE A+ (01-Mar-16)

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