November 29, 2021

Hwashin Automotive India Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	55.00	55.00	[ICRA]BBB(Stable); upgraded from BBB-(Stable)
Long Term - Fund Based TL	65.00	65.00	[ICRA]BBB(Stable); upgraded from BBB-(Stable)
Total	**120.00**	**120.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in rating of Hwashin Automotive India Private Limited's (HAIPL/the company) factors in the improvement in the company's credit profile as sizeable reduction in debt over the last three years has resulted in significant improvement in capital structure and credit metrics. Periodic equity infusion from its parent company, Hwashin Company Limited, Korea (HCL), and support in the form of capital creditors has resulted in reduced debt levels; moreover, HCL has extended corporate guarantee on most of HAIPL's loans. The company's credit profile is expected to improve further in the medium term as HCL is expected to support capex funding. The rating continues to favourably factor in the operational support enjoyed by HAIPL from its parent through supply of parts, die castings, robots, spares etc. HAIPL's operational profile remains healthy marked by its long-standing relationship with its key customers, Hyundai Motor India Limited (HMIL) and its tier-I supplier Mobis India Limited (Mobis). While HMIL continues to remain its largest customer, revenue concentration on HMIL reduced over the last three years to 59.6% in FY2021 from 75.4% in FY20219.

However, the rating is constrained by HAIPL's high geographical and segmental concentration risk as all its revenues are derived from the passenger vehicle segment (PV) and most of the sales are directed towards domestic OEMs and their tier-I suppliers. ICRA notes that while the company's revenues improved in H1 FY2022, after a de-growth in FY2021, on account of healthy demand, semiconductor shortage impacting the vehicle production in PV segment would adversely impact HAIPL's revenues in the near term. The rating also considers the volatility in profit margins given its vulnerability to fluctuations in the foreign currency rates in the absence of formal a hedging mechanism and the susceptibility of its earnings to the vagaries in HMIL's performance.

HAIPL's operating margins declined to 7.5% in FY2021 (against OPM of 8.1% in FY2020) due to larger proportion of revenues from low-end models and weaker absorption of fixed cost expenses on reduction in the scale of operations. HAIPL continues to incur large forex gains/losses – net exchange gain of Rs. 12.4 crore in FY2021 (against exchange losses of Rs. 53.6 crore in FY2020) – due to absence of hedging mechanisms on its imports and foreign currency loans since the forex is managed at the global treasury in Korea. With sustained losses in the past, there is an erosion of net worth, though equity infusion by its parent, HCL, supports its net worth position. However, the company reported a net profit of Rs. 58.1 crore in FY2021 (against PAT of Rs. 2.4 crore in FY2020) on account of positive incidence of forex impact in FY2021.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that HAIPL will continue to benefit from strong parentage, HMIL's stable market share and HAIPL's sole supplier status for sheet metal components, and diversification of the company's revenues with healthy revenues contribution from KMIPL. Increasing production requirements of HMIL and KMIPL further provides healthy visibility to HAIPL's revenues.

Key rating drivers and their description

Credit strengths

Continued support from parent – HAIPL's parent company, South Korea based HCL, Korea is a global component supplier to Hyundai Motor Company (HMC). HAIPL has an established track record of manufacturing sheet metal components and receives operational support and technical expertise from its Group company. HCL, Korea continues to support HAIPL through supply of parts, die castings, robots, spares etc. In addition to incorporating the strong process-oriented systems of the parent, the company also employs state of the art, automated production lines used by the parent. Apart from the need-based technical support, HAIPL also gets funding support for any capacity expansions with flexible payment terms. The parent also extends financial support in the form of corporate guarantee for the loans taken by HAIPL, with most banks, thus enabling better financial flexibility with lenders for any requirements.

Healthy relationship with HMIL ensuring strong revenue visibility – Committed and long-standing relationship with HMIL domestically and internationally through parent HCL, Korea (supplier of sheet metal parts / assemblies to HMC, Korea) ensures stable order flows, thus providing a healthy revenue visibility for HAIPL over the long term. HAIPL caters to HMIL's requirements of sheet metal parts and components across various models like Hyundai Santro, i10, i20, Verna, Venue, Xcent, Creta, etc. HAIPL also supplies to other OEMs Faurecia Automotive Seating India Private Limited (Faurecia). The company has pass through mechanisms with its customers, which protects its margins from any increase in raw material costs. The margins however are exposed to forex risks in the absence of hedging.

Credit challenges

High segment and geographical concentration risks – The PV segment accounted for 100% of the company's revenues and most of the sales directed towards domestic OEMs and their tier-I suppliers, exposing its growth to the fluctuations in performance of the domestic PV segment. Over the recent years, the company has added new customers, domestically and globally, such as Hwashin Fabricante Automotivas Brazil, KMIPL and Faurecia to mitigate concentration risks. Despite the high revenue concentration risks, the long-established relationship at the parent level (between HMC and HCL) provides comfort to revenue visibility.

Moderate financial profile – Sustained losses over the years, which coupled with high debt funded capital expenditure, had had eroded HAIPL's net worth over the years. However, HAIPL's capitalisation and coverage metrics have been improving over the last three years with sustained reduction in debt and improvement in retained cash flows. Interest coverage indicator improved to 5.5 times in FY2021 and Total Debt/OPBITDA remained at 2.4 times in FY2020 and FY2021.

High Forex risk – The company's earnings remain vulnerable to movement in foreign exchange rates as the company does not employ formal hedging mechanisms on its imports and foreign currency loans since the forex is managed at the global treasury in Korea. Thus, any movement in the foreign exchange rates will have an impact on the profitability of the company; the same was visible in FY2021, with a net forex gain of Rs. 12.4 crore in FY2021 (net forex loss of Rs. 53.6 crore in FY2020).

Liquidity position: Adequate

HAIPL's liquidity position is **adequate** with expected retained cash flows of ~Rs 70-90 crore, cash and liquid investments of Rs. 23.8 crore as on March 31, 2021, and undrawn working capital lines of ~Rs. 15-20 crore (with respect to available drawing power and sanctioned limits). In relation to these sources of cash, its debt repayment obligations are Rs. 18.0 per annum, and capex outlay of ~Rs 40-60 crore per annum. ICRA expects HAIPL to be able to meet its debt repayment obligations through internal sources of cash. The company is also expected to receive support from HCL, Korea to fund the capex.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings if it improves its segment or customer concentration while maintaining its margins and liquidity position. Specific credit metrics that could lead to rating upgrade include Total debt / OPBITDA less than 2 times on a sustained basis.

Negative factors – The ratings may be downgraded if there is a deterioration in the credit profile of parent entity or weakening of support extended by the parent, Hwashin Company Limited, Korea. Negative pressure on the ratings could also arise if prolonged impact of semiconductor shortage materially impacts the company's revenues. Further a sharp deterioration in the earnings or significant rise in debt levels beyond the estimates, thus resulting in moderation of debt coverage metrics shall be a negative trigger for ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Hwashin Company Limited, Korea
Consolidation/Standalone	Standalone

About the company

Hwashin Automotive India Private Limited (HAIPL) incorporated in India in 2002, as a wholly owned subsidiary of Hwashin Co Ltd, Korea, is engaged in manufacture and supply of stamped sheet metal components to automobile OEMs. The company is primarily a sheet metal component manufacturer which manufactures chassis parts (torsion beam, subframe, fuel tank, bumper rail, cowl bar, base assembly, cross member), engine parts (oil pan, heat protector), pedal parts (accelerator, brake, clutch) and body parts (apron, cowl complete, floor, hood, trunk). HAIPL also undertakes job work, primarily painting work, for a few other HMIL's vendors. The company has two manufacturing facilities located at Sriperumbudur with a capacity to cater to 7,70,000 cars.

During FY2021, the company reported a net profit of Rs. 58.1 crore on an operating income of Rs. 1,487.1 crore, as compared to a net profit of Rs. 2.4 crore on an operating income of Rs. 1,749.0 crore in the previous year.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	1,749.0	1,487.1
PAT (Rs. crore)	2.4	58.1
OPBDIT/OI (%)	8.1%	7.5%
PAT/OI (%)	0.1%	3.9%
Total Outside Liabilities/Tangible Net Worth (times)	19.8	6.5
Total Debt/OPBDIT (times)	2.4	2.4
Interest Coverage (times)	3.4	5.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 29, 2021	02-Sep-2020	31-May-2019	-
1	Long Term - Fund Based/ CC	Long term	55.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Long Term - Fund Based TL	Long term	65.00	36.0	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Long Term - Fund Based TL	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Long Term - Fund Based/ CC	-	-	-	55.00	[ICRA]BBB(Stable)
-	Long Term - Fund Based TL	29-Jul-2019	-	13-Mar-2023	65.00	[ICRA]BBB(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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