March 09, 2023

Hwashin Automotive India Private Limited: Ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	55.00	95.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB (Stable);
Term Loans	20.32	12.19	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB (Stable);
Buyer's Credit	113.00	205.00	[ICRA]A2; Upgraded from [ICRA]A3+;
Proposed Unallocated Limits	4.68	0.00	
Total	**193.00**	**312.19**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings outstanding on the bank lines of Hwashin Automotive India Private Limited (HAIPL/the company) factors in the expected improvement in the financial risk profile and likely ramp up in scale of operations in the medium term on the back of improved operating performance driven by favourable demand outlook in the PV segment. The ratings also reflect its healthy performance during 9M FY2023 as exhibited by strong growth in revenues (up 34% YoY annualised) and earnings, supported by strong PV demand. Higher scale of operations coupled with softened raw material prices resulted in marginal improvement in margins thus resulting in overall improvement in its credit profile in the current fiscal. The ratings continues to favourably factor HAIPL's operational profile marked by its long-standing relationship with its key customers, namely Hyundai Motor India Limited (HMIL) and KIA India and its tier-I suppliers and sole supplier status with its key clients for sheet metal parts requirements. While HMIL continues to remain its largest customer, revenue concentration on HMIL reduced to 57.2% in 9M FY2023 (from 75.4% in FY2019). The company enjoys healthy financial flexibility being part of Hwashin Company Limited, Korea (HCL), which has provided operational support and financial support over years; operational support includes technology transfer, supply of parts, die castings, robots, spares etc., and the financial support include equity funding, creditor funding corporate guarantee on most of HAIPL's loans.

However, the rating is constrained by HAIPL's high geographical and segmental concentration risk as its entire revenues are derived from the passenger vehicle segment (PV) and most of the sales are directed towards domestic OEMs and tier-I suppliers. The rating also considers the volatility in profit margins given its vulnerability to fluctuations in input prices and foreign currency rates in the absence of formal hedging mechanism and susceptibility of its earnings to the vagaries of its customer's performance.

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. Increasing production requirements of HMIL and KMIPL also provides visibility to HAIPL's revenues.

Key rating drivers and their description

Credit strengths

Sole supplier of certain sheet metal parts for HMIL - HAIPL enjoys long-standing relationship with its clients, HMIL and Kia India both 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 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 and KIA India's Seltos, Carens, Sonet etc. HAIPL also supplies to other OEMs like Nissan. The company has pass through clauses with its customers, which protects its margins from any increase in raw material costs.

Comfortable financial risk profile – Favorable PV demand, healthy product mix amid launch of new products by its clients supported the improvement in the company's operational performance in the last two fiscals. The overall volumes of components supplied grew by 23% in FY2022 and further to ~26% in the current financial year, resulting in healthy ramp up in scale of operations with the revenues in the current fiscal growing by ~34% on an annualised basis. Going forward, volumes are expected to improve on the back of strong orderbook position and new product launches from HMIL and KIA. Supported by healthy product mix since FY2020 on the back of launch of higher end models like Creta, Venue etc, the OPBDITA margins have improved to 7-8% in the recent years. This coupled with reduction of long-term debt has resulted in improvement of credit metrics with gearing of 1.2x and Total Debt/OPBDITA at 1.5x as on December 31, 2022, while interest coverage ratio improved to 11.2x for the period 9M FY2023. The capitalisation metric marked by TOL/TNW, has remained moderately high at 2.8x as on December 31, 2022 constrained by higher creditors (largely towards parent) and net-worth position affected by accumulated losses incurred in the past.

Strong financial flexibility on the back of strong parent – HAIPL's parent, 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 supports 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 loans taken by HAIPL, with most banks, thus enabling better financial flexibility with lenders for any requirements. The parent has demonstrated support in the past in the form of equity infusions and through creditors.

Credit challenges

High segment and geographical concentration risks –PV segment accounted for the company's entire 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.

Vulnerability of earnings to input costs and forex rates – The company's earnings remain vulnerable to movement in input prices and 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 evident in the current fiscal, with a net forex loss of ~Rs. 25 crore in the 9M FY2023 period (provisional financials).

Liquidity position: Adequate

HAIPL's liquidity position is **adequate** with expected retained cash flows of ~Rs 100-120 crore, cash and liquid investments of Rs. 65.7 crore as on December 31, 2022. The company enjoys ~Rs. 400 crore total sanctioned working capital lines and has undrawn working capital lines of ~Rs. 15-20 crore (with respect to available drawing power and sanctioned limits on the cash credit facility). In relation to these sources of cash, the company has minimal term debt repayments of Rs. 16.5 crore in the current fiscal and capex outlay of ~Rs 100.0 crore per annum. ICRA expects HAIPL to be able to meet its debt repayment obligations through internal sources of cash and receive support from HCL, Korea to fund the capex.

Rating sensitivities

Positive factors - ICRA could upgrade the company's ratings with sustained improvement in its operational profile (specifically segment / customer diversification) and financial profile reflected by stable growth in revenues, earnings, debt protection metrics and liquidity position.

Negative factors -Negative pressure on the ratings could also arise if there is a sharp deterioration in the earnings or significant rise in debt levels, thus resulting in moderation of debt coverage metrics shall be a negative trigger for ratings. Any weakening of linkages with the parent or absence of need-based funding support shall also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	ICRA has considered the standalone credit profile of the company, factoring in the operational linkages and financial flexibility arising from the parent as against direct implicit parent support as was considered in the previous rating exercise.
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, namely Hyundai and Kia. 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. It has two manufacturing facilities located at Sriperumbudur with a capacity to cater to 7,25,000 components for Hyundai and 3,50,000 components for KIA.

Key financial indicators (audited)

	FY2021	FY2022
Operating Income (Rs. crore)	1,487.1	1,810.2
PAT (Rs. crore)	58.1	57.9
OPBDITA/OI (%)	7.5%	7.4%
PAT/OI (%)	3.9%	3.2%
Total Outside Liabilities/Tangible Net Worth (times)	6.5	3.9
Total Debt/OPBDIT (times)	2.4	1.9
Interest Coverage (times)	5.5	6.7

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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					09-Mar-2023	23-Dec-2021	29-Nov-2021	02-Sep-2020	31-May-2019
1	Cash Credit	Long term	95.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term Loans	Long term	12.19	12.19	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
3	Buyer's Credit	Short term	205.00	-	[ICRA]A2	[ICRA]A3+	-	-	-
4	Proposed Unallocated Limits	Long term / Short term	-	-	-	[ICRA]BBB(Stable)/ [ICRA]A3+	-	-	-

Source: *Company*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Buyer's Credit	Very 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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	95.00	[ICRA]BBB+(Stable)
-	Term Loans	29-Jul-2019	-	13-Mar-2023	12.19	[ICRA]BBB+(Stable)
-	Buyer's Credit	-	-	-	205.00	[ICRA]A2

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Sachidanand Thillai
+91 74015 51867
sachidanand.thillai@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches