

April 04, 2023

TDK India Private Limited: [ICRA]AA-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated	160.00	[ICRA]AA-(Stable); Assigned
Total	160.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating considers strong operational and financial support enjoyed by TDK India Private Limited (TDKIPL) from its parent group, TDK Group, which manufactures several electronic components. TDK Corporation, Japan (rated Moody's Baa1 / Stable) is the flagship entity of the group, and it is the market leader in passive electronic components such as capacitors, inductive devices, etc. TDKIPL benefits from the business synergies derived from the parent group as ~67% of its revenues is derived from sales to the parent group. Moreover, TDKIPL is strategically important to the TDK Group for several key components as a significant proportion of the parent group's requirements are manufactured by TDKIPL. The company derives ~70-75% of its revenues from sales of capacitors while other products such as ferrites, sprayed coils, etc., account for rest of its revenues. TDKIPL witnessed revenue growth at a CAGR of 4.1% over the past five years on the back of healthy demand for its diversified product portfolio from its domestic and global clients. Revenue growth in 11M FY2023 has also been healthy at ~16% on account of healthy growth in DC (Direct Current) capacitor sales. The company has a strong order book of Rs. 693.1 crore as on March 14, 2023; moreover, it has a high order backlog of ~60 weeks for DC capacitors. Its strong orderbook and healthy demand is expected to aid in 10-15% revenue growth for the company in FY2024. This apart, the company is expanding its installed capacity for DC capacitors to 63 crore from 50 crore pieces, at an estimated capex of Rs. 600.0 crore, which would be incurred over the next five years. Enhanced capacity is expected to aid TDKIPL scale up its operations over the medium term. The ratings also consider TDKIPL's comfortable financial profile with healthy capital structure and coverage indicators, as indicated by Total debt / OPBITDA of 1.2 times and an interest coverage of 9.5 times in 11M FY2023. While the company's debt metrics are expected to moderate in the near term, given the planned capex, they are still expected to remain comfortable.

The rating, however, is constrained by the risk of technological obsolescence, necessitating the company to innovate and upgrade its products and processes, which leads to high capital intensity of operations. However, the TDK Group has demonstrated its ability to be proactive and adapt to evolving technologies. Moreover, the company's revenues are exposed to demand fluctuations in end-user segments such as automotive, renewable power, etc. The ratings are also constrained by the foreign exchange fluctuation risk as the company derives ~65-70% of its revenues from exports. Nevertheless, a natural hedge in imports mitigates this risk to an extent.

The Stable outlook on the rating reflects ICRA's expectation that the company will continue to record healthy growth in its revenues and earnings on the back of healthy demand and the parent group's market position in the electronic components industry. The company is expected to maintain a comfortable financial profile.

Key rating drivers and their description

Credit strengths

Support from parent group – TDKIPL, a part of the TDK Group, is the market leader in the electronic products manufacturing business. TDKIPL benefits from the parent group's established supplier and customer base as ~67% of its sales are to the parent group. TDKIPL is also a strategically important entity to the group as it supplies a significant part of the parent group's requirements for several critical electronic components. The parent group also supports TDKIPL in research and development, product design, etc. It also enjoys financial support from the group as its direct parent, TDK Electronics AG, Germany's letter of support indicates its willingness to support TDKIPL to fund its capital expenditure under the Scheme for Promotion of Manufacturing of Electronic Components and Semi-Conductors (SPECs), if required.

Strong revenue growth backed by healthy demand and diversified product segments – The company manufactures and supplies electronic capacitors and ferrite cores which are used in automotive, consumer goods, solar, power transformers and industrial electronics. The company's revenue witnessed a strong growth (annualised) of 16% to Rs. 1192.3 crore in 11M FY2023 from Rs. 981.0 crore in FY2022 on the back of healthy demand for its diversified product portfolio from its domestic and global clients. ICRA estimates the company will likely record a healthy revenue growth of 15-25% in FY2023. Further, the company has a strong order book of Rs. 693.1 crore as on March 14, 2023. Given the strong order book and healthy demand, the company is expected to record a revenue growth of 10-15% in FY2024. It is expanding its installed capacity of DC capacitors to 63 crore from 50 crore pieces over a period of five years and the same would be funded through internal accruals. The enhanced capacity is expected to aid TDKIPL scale-up its operations over the medium term.

Comfortable financial risk profile - The company's capital structure is comfortable with gearing of 0.3 times as on February 28, 2023. The company's debt of Rs. 177.3 crore as on February 28, 2023, constitutes Rs. 119.5 crore of working capital borrowings and Rs. 57.8 crore of lease liability with no long-term loans. The debt coverage metrics also remains comfortable as indicated by total debt/OPBIDTA of 1.2 times and Interest coverage of 9.5 times and DSCR of 6.0 times in 11M FY2023. Going forward, the debt coverage indicators are expected to moderate to an extent given the ongoing capex; however, they are still expected to remain comfortable.

Credit challenges

Capital intensive operations and risk of technological obsolescence – The company faces the risk of technological obsolescence requiring it to rapidly innovate its products, update its processes and invest to adapt to the evolving technologies, thus making its operations capital intensive. Moreover, micronisation of the capacitors and other electrical parts, results in high wear and tear of the plant. Accordingly, the group needs to incur significant annual maintenance capex to sustain its production capacity, consuming a hefty share of its accruals. However, the company has demonstrated its ability to adapt to rapid changes in technology and despite the competition and capital-intensive operations, it has been able to maintain its profitability. ICRA notes that the company's revenues are exposed to demand fluctuations in the end-user segments such as automotive, renewable power, etc

Exposure to foreign exchange fluctuations – The company generates ~67% of its revenue through exports and imports raw materials. However, the price escalation clause, with respect to forex prices, mitigates the exchange rate fluctuation risk to an extent.

Liquidity position: Adequate

The liquidity position is adequate with cash and a bank balance of Rs. 44.5 crore as on February 28, 2023 and expected retain cash flows of Rs. 100-170.0 crore over the next 12 months. The company does not have any repayment obligations. TDKIPL is expanding its installed capacity of DC capacitors to 63 crore pieces from 50 crore pieces, at an estimated capex of Rs. 600.0 crore, which would be incurred over the next five years and the same would be funded through internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if there is an improvement in the credit profile of the parent. Significant scale-up of TDKIPL's revenues with ramp-up of the ongoing capacity additions, while maintaining healthy profitability and debt metrics also remain critical for a rating upgrade.

Negative factors – The rating could witness a downward revision if any material decline in earnings or sizeable capex impacts the company's debt metrics or liquidity position. Any deterioration in the parent's credit profile or weakening of linkages with the parent could also trigger a downgrade. Specific credit metric for downgrade includes Net debt/OPBITDA increasing to more than two times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

TDK India Private Limited (erstwhile EPCOS India Private Limited) was incorporated on November 8, 1976, and the company is a subsidiary of TDK Electronics AG, Germany and TDK Electronics Components S.A.U. Spain, which are the subsidiaries of TDK Corporation, Japan. TDK India took over the film capacitors business of Asian Electronics Limited, which was then the leader in India of AC / LT Power and LT switch film capacitors and metallised film, in 1998. TDK India manufactures and markets electronic components and ferrites for the sectors like automotive, solar, consumer goods and industrial electronics. It has two units located at Nasik (Maharashtra) and Kalyani (West Bengal).

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income (Rs. crore)	765.1	981.0
PAT (Rs. crore)	40.3	62.9
OPBDITA/OI	13.3%	15.7%
PAT/OI	5.3%	6.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.8
Total debt/OPBDIT (times)	1.4	1.1
Interest coverage (times)	8.5	16.8

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; OI – Operating income; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Apr 04, 2023	-	-	-
1 Unallocated	Long Term	160.0	-	[ICRA]AA-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Unallocated limits	Not applicable

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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Unallocated	-	-	-	160.00	[ICRA]AA- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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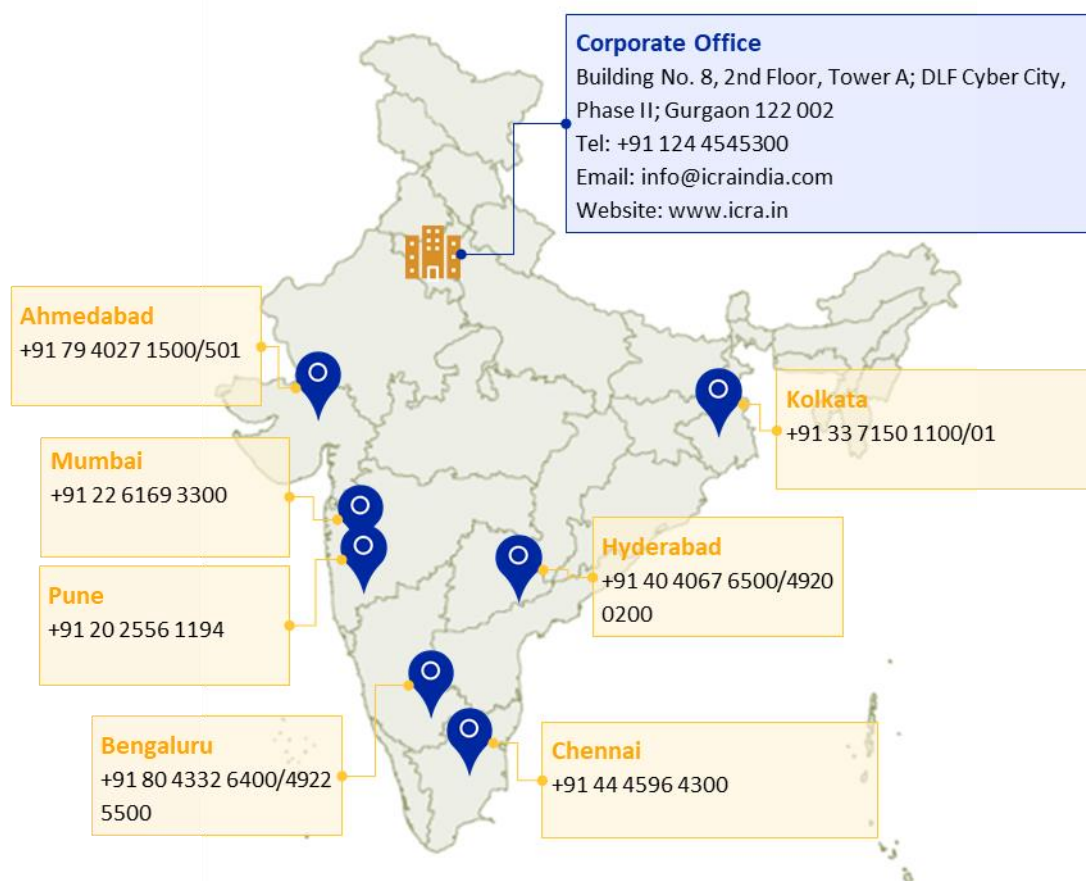


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