March 08, 2024

# Flash Electronics (India) Private Limited: [ICRA]A (Stable)/[ICRA]A2+ assigned

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| Long-term – Fund-based – Term Loans | 133.41 | [ICRA]A (Stable); assigned |
| Long-term – Fund-based – Cash Credit^ | 56.00 | [ICRA]A (Stable); assigned |
| Long-term/ Short-term – Non-fund based – Letter of Credit/ Bank Guarantee (LC/BG) | 25.00 | [ICRA]A (Stable)/ [ICRA]A2+; assigned |
| **Total** | **214.41** | |

**Instrument details are provided in Annexure-I; ^Interchangeable with WCDL/LC/BG*

## Rationale

The ratings assigned to Flash Electronics (India) Private Limited (FEPL) factor in its established business position and the extensive experience of its promoters in the domestic automotive components industry. Additionally, its established relationship with Bajaj Auto Limited (BAL), one of the leading two-wheelers (2W) original equipment manufacturers (OEM) in India, provides further comfort. Over the years, FEPL has maintained a strong market position supported by its sizeable manufacturing set-up, strong technical capabilities and product development expertise, strengthened through its status as an anchor supplier to BAL.

The assigned ratings also take into consideration FEPL's diversified presence across different product categories including e-mobility/ electric vehicle (EV) components. Also, the ratings consider FEPL's strong and able management and its healthy share of business with its principal customers. The company's product portfolio is characterised by the presence of both traditional products, such as regulators, gear assemblies, shafts and sensors; and advanced product categories, such as electronics, magnetos, LED lightings, e-mobility components and others. This mitigates the potential risk owing to changes in the powertrain mix, especially in the 2W segment. Leveraging on the same, FEPL has established relationships with a reputed client base comprising domestic and international OEMs and tier-1 suppliers, in addition to BAL. Over the years, the company has diversified its operations across five major segments, electronics and electricals (~47% share of revenues in FY2023), EV components (5%), metallics (23%), engine components (17%) and sprockets (8%).

The ratings also draw strength from the company's improving financial risk profile, as reflected by steady revenue growth and improvement in profitability, resulting in healthy accrual generation. This, coupled with some reduction in debt levels has supported the improvement in FEPL's credit metrics in recent years. In the near term, the company's growth prospects will be driven by scale-up in EV business and exports, wherein the company has secured new businesses from new and existing customers. ICRA expects FEPL's capex plans to be modest (i.e. ~Rs. 30 crore p.a.) in the near term, as it will continue to prioritise leveraging its existing asset base, especially in the metallics and EV segments.

However, to strengthen its presence in the EV components space, the company is likely to consider an investment to manufacture four-wheeler EV components over the medium term. ICRA expects this investment to be financed through equity funds, as FEPL intends to raise equity capital. The company's plans to raise equity capital, along with the potential conversion of compulsory convertible debentures (CCDs) into equity, will augment its capital structure and strengthen its credit profile, which remains monitorable.

The ratings are, however, constrained by the vulnerability of FEPL's profitability to inherent fluctuations in prices of key raw materials, as well as competitive pressures in the auto component industry. Nevertheless, the risk is mitigated to an extent as the company enjoys raw material pass-through clauses with customers, although with a lag of a quarter. In addition, FEPL benefits from the first-mover advantage and holds single-source supplier status for most of its products. FEPL is also exposed to relatively higher customer concentration risk, with its top customer accounting for significant portion of its total revenue.

However, the healthy share of business, key supplier status and BAL's leading market position in the industry provide some comfort. While FEPL scores favourably on product diversity, its relatively higher exposure to the 2W segment and to its largest customer impact the ratings at present. ICRA notes that the company is making considerable efforts to diversify its business profile by gaining a share of business from other customers, especially in international markets.

The Stable outlook on the long-term rating reflects ICRA's expectation that FEPL will continue to benefit from its established business position, long-standing relation with BAL and the company's broad-based growth across its business segments.

## Key rating drivers and their description

### Credit strengths

**Established track record and extensive experience of promoters in the automotive components industry –** Incorporated in 1989, FEPL has established itself as a prominent manufacturer of electronic and electrical automotive components, especially for the 2W industry. This has been supported by its established relationships with BAL and other key OEMs, diverse product profile and sizeable manufacturing set-up. The company is promoted by Mr. Sanjeev Vasdev (Founder and Managing Director), who has extensive experience of over three decades in the industry.

**Long-standing relations with reputed client base –** Over the years, FEPL has developed a wide customer base of leading domestic and global OEMs, some of them namely BAL, Yamaha Motor India Pvt Ltd, Mahindra and Mahindra Ltd, Kawasaki Motors India Pvt Ltd, Maruti Suzuki India Ltd, BMW, Triumph, BRP Rotax Gmbh and others; and tier-1 suppliers such as Endurance Technologies Ltd, Makino Auto Industries Pvt Ltd among others. The company enjoys a healthy share of business with its principal customer, aided by its technological capabilities and wide product profile, especially for EV components. Given the product development and order booking with new and existing customers, FEPL's EV share is expected to increase to 13% in FY2024.

**Diversified product profile aided by strong product development expertise –** FEPL operates through five major business segments – electrical and electronics (47% of revenues in FY2023), EV (5%), metallics (23%), sprockets (8%) and engine components (17%). FEPL's diverse product profile in each segment is supported by strong technical capabilities, various technical collaborations and continued investment in designing infrastructure and R&D over the years. The same has enabled the company to develop a product profile of over 150 components, including regulators, capacitors, magnetos, alternators, ignition coils, sensors, thermostats, throttle bodies, starter motors and e-mobility products, among others. The company also has a hi-tech design technology centre in Poland, which is used for product development. Supported by the same, FEPL plans to launch its newer products for 2W, three-wheelers and passenger vehicles (PV) in the near term.

**Steady revenue growth in recent years; momentum likely to sustain –** FEPL has reported steady revenue growth, with a 3-year CAGR of 14% ending FY2023. This growth has been aided by the pickup of volumes in the 2W industry after the pandemic, the expansion of its metallics and EV verticals, and its growing international presence. Moreover, it has achieved revenues of Rs. 987 crore in 9M FY2024 (as per provisional financials), supported by stable demand in the domestic market and new business in exports. This, coupled with steady improvement in operating margins, has led to healthy cash accrual generation and adequate liquidity position, supporting the enhancement of FEPL's credit metrics. The same is demonstrated by the total debt/OPBITDA of 2.9x in FY2023 (6.2x in FY2021), interest coverage of 2.8x in FY2023 (1.6x in FY2021) and TOL/TNW of 3.4x in FY2023 (4.5x in FY2021). Healthy earnings, coupled with no likely increase in debt levels and fund-raising plans of the company, are expected to strengthen its financial risk profile over the medium term.

### Credit challenges

**Relatively high customer concentration risk –** FEPL encounters a relatively higher customer concentration risk, with its top customer, BAL, driving significant part of its revenue. The company's business performance is thus vulnerable to the performance and market share of its key client. However, ICRA notes that the same has declined from ~75-80% in the past due to the expansion of FEPL's customer base. Moreover, FEPL's healthy share of business and key supplier status with BAL, along with BAL's leading market position in the 2W industry, also provide some comfort. While BAL is expected to significantly drive the company's revenue, the addition of new products for the PV segment and expansion of its EV vertical through planned product launches are expected to widen the customer base and also support the company's revenue growth over the medium term.

**Exposure to raw material price volatility and competitive pressures –** FEPL's operating margins are susceptible to fluctuations in the price of key raw materials such as steel, aluminium, copper and others. However, the same is passed on with a minor lag, largely insulating its profitability. Moreover, due to the competitive nature of business, the company encounters pressures from other global and domestic suppliers, in terms of pricing flexibility. However, it benefits to an extent from its established operational track record and long-standing relationships with its key customers.

**Cyclicality inherent in the automotive sector –** FEPL derives the majority of its revenue from the automotive sector, mainly the 2W segment (78% of revenues in FY2023), thereby exposing it to the inherent cyclicality and/or demand slowdowns in the auto industry. However, given that the company enjoys established relations with BAL and has demonstrated the ability to sustain its steady revenue growth in recent years, with its product profile also catering to alternative vehicle components (EV), FEPL is likely to report healthy revenue growth over the medium term.

## Liquidity position: Adequate

FEPL's liquidity position is adequate, which is supported by steady internal cash accrual generation, free cash and bank balances of ~Rs. 78 crore and undrawn working capital bank lines of ~Rs. 50 crore as on December 31, 2023. FEPL has debt repayment obligations of Rs. 43.1 crore in FY2024 and Rs. 80.1 crore in FY2025, along with annual capex plans of ~Rs. 30 crore per annum. The same is expected to be comfortably serviced through internal accruals and available bank lines.

## Rating sensitivities

**Positive factors –** ICRA could upgrade FEPL's ratings if it reports healthy revenue growth and accrual generation, and/or a considerable increase in net worth through fundraising activity, resulting in the strengthening of its debt protection metrics and liquidity profile. Specific credit metrics that may upgrade the ratings include a full form (TOL/TNW) of less than 1.5 times on a sustained basis.

**Negative factors –** Pressure on FEPL's ratings could arise in case of considerable decline in revenue and accrual generation, significant debt-funded capex and/or deterioration in working capital cycle, resulting in the weakening of its credit metrics and liquidity position. Specific credit metrics that may lead to ratings downgrade include total debt/OPBDITA of more than 2.3 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Auto Components |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of FEPL. As on March 31, 2023, the company had two subsidiaries, which are enlisted in Annexure II. |

## About the company

Incorporated in 1989, FEPL manufactures electronic and electrical auto components, gear assemblies, sprockets, engine and e-mobility components for the 2W, three-wheelers, PVs, EV auto OEMs and tier-1 suppliers. The company has seven manufacturing plants across India, Germany and Hungary. FEPL has been promoted by Mr. Sanjeev Vasdev and relatives, who presently holds a 90.79% equity stake in the company and the balance 9.22% is held by DMI Finance Private Limited (DMI). DMI had also infused funds (Rs. 75 crore) in the form of CCDs in FEPL in FY2019.

### Key financial indicators (audited)

| FEPL – Consolidated | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 1,013.9 | 1,210.7 |
| **PAT** | 11.0 | 45.3 |
| **OPBDIT/OI** | 10.7% | 12.3% |
| **PAT/OI** | 1.1% | 3.7% |
| **Total outside liabilities/Tangible net worth (times)** | 4.1 | 3.4 |
| **Total debt/OPBDIT (times)** | 4.4 | 2.9 |
| **Interest coverage (times)** | 2.2 | 2.8 |

*Source: Company, ICRA Research; All ratios as per ICRA's calculations/adjustments; Amount in Rs. crore; 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 (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Sep 30, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Mar 08, 2024 | - | - | - |
| 1 | **Fund-based – Term Loans** | Long-term | 133.41 | 133.41 | **[ICRA]A (Stable)** | - | - | - |
| 2 | **Fund-based – Cash Credit^** | Long-term | 56.00 | - | **[ICRA]A (Stable)** | - | - | - |
| 3 | **Non-fund based – LC/BG** | Long-term/ Short-term | 25.00 | - | **[ICRA]A (Stable)/ [ICRA]A2+** | - | - | - |

*^Interchangeable with WCDL/LC/BG*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Fund-based – Term Loans** | Simple |
| **Fund-based – Cash Credit^** | Simple |
| **Non-fund based – LC/BG** | Very Simple |

*^Interchangeable with WCDL/LC/BG*

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 | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Fund-based – Term Loans** | FY2018 | 8.5-9.0% | FY2028 | 133.41 | [ICRA]A (Stable) |
| **NA** | **Fund-based – Cash Credit^** | NA | NA | NA | 56.00 | [ICRA]A (Stable) |
| **NA** | **Non-fund based – LC/BG** | NA | NA | NA | 25.00 | [ICRA]A (Stable)/ [ICRA]A2+ |

*Source: Company; ^Interchangeable with WCDL/LC/BG*

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

## Annexure II: List of entities considered for consolidated analysis

| Company Name | FEPL's Ownership | Consolidation Approach |
|---|---|---|
| **Flash Viven Machining Technologies Private Limited** | 100.00% | Full consolidation |
| **Bing Power Systems Gmbh** | 100.00% | Full consolidation |

*Source: Company*

## ANALYST CONTACTS

**Shamsher Dewan**
+91 124 4545328
shamsherd@icraindia.com

**Kinjal Shah**
+91 22 6114 3442
kinjal.shah@icraindia.com

**Deepak Jotwani**
+91 124 4545 870
deepak.jotwani@icraindia.com

**Charvi Sagar**
+91 124 4545 373
charvi.sagar@icraindia.com

## RELATIONSHIP CONTACT

**L. Shivakumar**
+91 22 6114 3406
shivakumar@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