April 02, 2024

Hwashin Automotive India Private Limited: Ratings upgraded to [ICRA]A-(Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - CC	95.00	95.00	[ICRA]A-(Stable); upgraded from [ICRA]BBB+ (Stable)
Long Term - Fund Based - TL	12.19	0.00	-
Short Term - Buyer's Credit	205.00	200.00	[ICRA]A2+; upgraded from [ICRA]A2
Total	**312.19**	**295.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings outstanding on the bank lines of Hwashin Automotive India Private Limited (HAIPL/the company) factors in sustained improvement in the company's credit profile on the back of the healthy growth in revenues and earnings, which is expected to sustain going forward as well. Improved operating performance driven by healthy demand from its major customer, Hyundai Motor India Limited (HMIL), resulted in higher scale of operations, which coupled with softened raw material prices, resulted in marginal improvement in margins thus resulting in overall improvement in its credit profile in FY2024. The ratings continue to favourably factor HAIPL's healthy operational profile marked by its long-standing relationship with its key customers, namely HMIL and KIA Motors India Private Limited (KMIPL) and its tier-I 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 63.0% in 9M FY2024 (from 75.4% in FY2019) with the addition of KMIPL from FY2020. The company enjoys healthy financial flexibility being part of Hwashin Company Limited, Korea (HCL), which has provided operational and financial support over years; operational support includes technical support, supply of parts, die castings, robots, spares etc., and the financial support includes equity funding, creditor funding, and 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 to domestic OEMs and tier-I suppliers. The rating also considers the volatility in profit margins given the vulnerability of the same 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]A- 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 and KMPL - 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) which 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 i10, i20, Verna, Venue, Xcent, Creta, Exter and KIA India's Seltos, Carens, Sonet etc.

Comfortable financial risk profile – Favorable PV demand and 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 42% in FY2023 and ~1% (annualised basis) in 9M FY2024, resulting in healthy revenue growth of 34% in FY2023 and ~2% in 9M FY2024 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 on the back of launch of higher end models like Creta, Venue, Exter 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 0.8x and Total Debt/OPBDITA at 1.5x as on December 31, 2023, along with the improved interest coverage ratio to 7.2x in 9M FY2024 from 4.2x in FY2023. The capitalisation metric marked by TOL/TNW, has improved, yet remained moderately high at 1.6x as on December 31, 2023 constrained by higher creditors (largely towards parent) and net-worth position affected by losses incurred in the past.

Strong financial flexibility on the back of strong parent – HAIPL's parent, South Korea based HCL, 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 parent 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, thus enabling better financial flexibility with lenders for any requirements. There is a track record of demonstrated support from parent 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 are to 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 by the parent entity in Korea. Thus, any movement in the foreign exchange rates will have an impact on the profitability of the company.

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. 154.7 crore as on December 31, 2023. 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 a capex outlay of ~Rs 100.0-120.0 crore per annum. ICRA expects HAIPL to be able to meet its capex funding partly through internal accruals and partly through support from HCL, Korea.

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. A specific credit metric which could lead to downgrade include TD/OPBITDA of more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
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.
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 7,50,000 components for Hyundai and 3,50,000 components for KIA.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	1,810.2	2,432.4
PAT	57.9	96.2
OPBDIT/OI	7.4%	7.1%
PAT/OI	3.2%	4.0%
Total outside liabilities/Tangible net worth (times)	3.9	2.4
Total debt/OPBDIT (times)	1.9	1.8
Interest coverage (times)	6.7	4.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
					Apr 02, 2024	-	Mar 09, 2023	Dec 23, 2021	Nov 29, 2021
1	Cash Credit	Long term	95.00	79.5	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loans	Long term	0.00	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Buyer's Credit	Short term	200.00	128.8	[ICRA]A2+	-	[ICRA]A2	[ICRA]A3+	-
4	Proposed Unallocated Limits	Long term / Short term	-	-	-	-	-	[ICRA]BBB (Stable) / [ICRA]A3+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	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 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
-	Cash Credit	-	-	-	95.00	[ICRA]A-(Stable)
-	Buyer's Credit	-	-	-	200.00	[ICRA]A2+

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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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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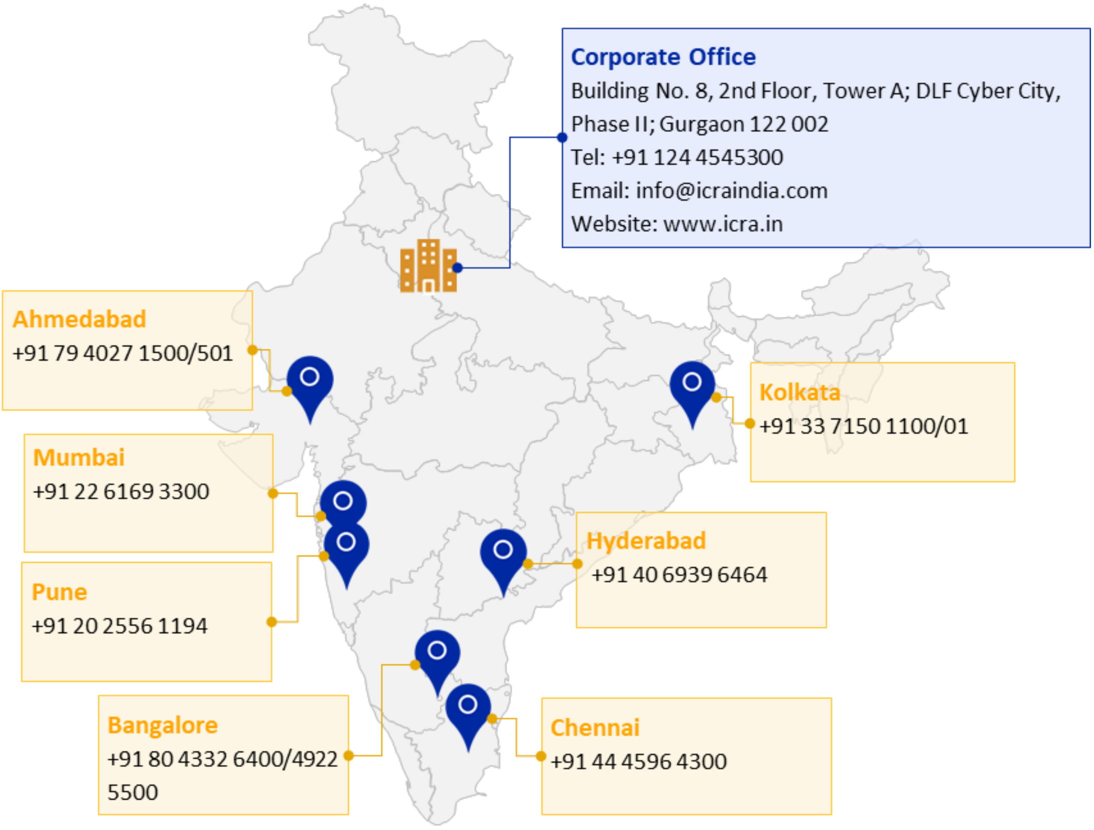

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