

September 02, 2020 <sup>Revised</sup>

## Hwashin Automotive India Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	120.00	55.00	[ICRA]BBB-(Stable); reaffirmed
Long Term - Fund Based TL	0.00	65.00	[ICRA]BBB-(Stable); reaffirmed
<b>Total</b>	<b>120.00</b>	<b>120.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of rating continues to favourably factor in the continued support enjoyed by Hwashin Automotive India Private Limited (HAIPL) from its parent Hwashin Company Limited, Korea (HCL) operationally through supply of parts, die castings, robots, spares etc., and financially through funding with flexible credit terms, corporate guarantee on most of the loans etc., primarily for capital expenditure purposes. HAIPL's operational profile remains stable marked by its long-standing relationship with its key customers, Hyundai Motor India Limited (HMIL) and its tier-I supplier Mobis India Limited (Mobis), from whom HAIPL derived 66.2% of revenues in FY2020. While this exposes HAIPL to customer concentration risk, established global relationship between HCL and Hyundai Motor Company (HMC), Korea, provides comfort and revenue stability to HAIPL. With the launch of "Kia Motors" brand of cars in India in FY2020, the company now supplies sheet metal components to Kia Motors India Private Limited (KMIP) as well.

However, the rating is constrained by HAIPL's high geographical and segmental concentration risk with all its revenues derived from the PV segment and most of the sales directed towards domestic OEMs and their tier-I suppliers. The rating also considers the average credit profile of the company affected by forex losses and high gearing. The novel coronavirus pandemic (Covid-19) and the consequent nationwide lockdown has significantly impacted economic activity and disrupted the supply chain in the current year. ICRA expects volume decline across most automotive segments in FY2021, with sharp double-digit reduction expected in domestic PV segment.

HAIPL reported a net profit of Rs. 7.1 crore in FY2020 (against loss of Rs. 34.1 crore in FY2019) primarily because of improvement in operating margins to 8.1% in FY2020 (against OPM of 5.2% in FY2019) due to larger portion of high-end models in the product mix and discontinuation of low-end models like Hyundai Eon. HAIPL continues to incur large forex losses – exchange losses of Rs. 53.6 crore in FY2020 (against exchange losses of Rs. 44.4 crore in FY2019) – due to rupee depreciation and 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. This results in HAIPL's leveraged capital structure and moderate coverage metrics.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that HAIPL will continue to benefit from strong parentage and HMIL's stable market share, and its sole supplier status for sheet metal components. 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** – HCL, Korea continues to support HAIPL through supply of parts, die castings, robots, spares etc. It also extends financial support in forms of corporate guarantee for the loans taken by HAIPL with most banks thus enabling better financial flexibility with lenders for any requirements. Further, the parent also continues to fund the capex and other requirements of the company with flexible payment terms. HCL, Korea has infused ~Rs. 150 crore, over the last five years, to support HAIPL's net worth position.

**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 like Ford India Private Limited (Ford) and Faurecia Automotive Seating India Private Limited (Faurecia) etc. With the launch of "Kia Motors" brand of cars in India in FY2020, the company's sales volumes are likely improve going forward.

### Credit challenges

**High Customer Concentration** – During FY2020, the company derived 66.2% of its total revenues from its top two customers, HMIL and Mobis. Thus, HMIL and its associated ancillary performance will have a significant bearing on HAIPL's financials. Over the recent years, the company has added new customers such as Ford, KMIPL and Faurecia to mitigate the customer concentration risk, however contribution from non HMIL entities continues to be low at 5-8%. Despite the high revenue concentration, the long-established relationship at the parent level (between HMC and HCL) provides comfort to revenues.

**Average financial profile** – HAIPL's financial is average characterized by sustained forex losses, high gearing etc. Sustained losses over the years had eroded HAIPL's net worth, which coupled with high debt funding capital expenditure (Rs. 442.8 crore during FY2016-20) has resulted in high net gearing levels of around 7.6 times in FY2020. Interest coverage indicators remained moderate at 4.0 times in FY2020 and Net Debt/OPBITDA improved from 3.9 times in FY2019 to 1.9 times in FY2020. Going forward, the company has plans to incur capital expenditure of over Rs.70 crore annually over the next three years, part of which is likely to remain funded by the parent. The company's operating margins expanded by 290 bps in FY2020 due to better volume mix although the same was nullified by large forex losses. Going forward, HAIPL's ability to sustain its margins given the addition of Kia to its portfolio and improve debt indicators shall be key credit monitorables.

**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 adverse movements in the foreign exchange will have an impact on the profitability of the company; the same was visible in FY2020, when rupee depreciated against the USD leading to a forex loss of Rs. 53.6 crore.

### Liquidity position: Adequate

HAIPL's liquidity position is **adequate** with cash flow from operations of over Rs. 135 crore in FY2020 (provisional); cash and liquid investments of Rs. 31.6 crore as on July 31, 2020; and undrawn working capital lines of Rs. 16.7 crore (with respect to available drawing power and sanctioned limits) as on July 31, 2020. HAIPL's working capital utilisation was moderate at 67.1% of sanctioned limits and 40.7% of drawing power during the period April 2019 to July 2020. In relation to these sources of cash, its debt repayment obligations are Rs. 32.9 crore in FY2021, Rs. 22.1 crore in FY2022, and Rs.23.3

crore in FY2023. ICRA expects HAIPL to be able to meet its debt repayment obligations through internal sources of cash. However, as OEMs are planning to launch new models in the market, HAIPL has to incur an estimated capex of ~Rs. 70 crore each year in the medium term to meet the demand. This capex will be funded partly through credit from HCL, Korea and partly through debt funding.

## Rating sensitivities

**Positive triggers** – A positive rating action is unlikely over the near term given the weak global macroeconomic conditions and the negative outlook for the auto industry. However, significant improvement in scale, with sustained expansion in profit margins and improvement in debt metrics shall support a positive action over medium term.

**Negative triggers** – 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 from prolonged impact of the pandemic on PV demand, leading to weak performance and deterioration in liquidity. 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
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. HAIPL caters primarily to HMIL and Mobis, which accounted for 75.0% of HAIPL's total revenues in FY2017. 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 FY2020, the company reported a net profit of Rs. 7.1 crore on an operating income of Rs. 1,749.0 crore, as compared to a net loss of Rs. 34.1 crore on an operating income of Rs.1,669.7 crore in the previous year.

## Key financial indicators

Consolidated	FY2019 (audited)	FY2020 (unaudited)
Operating Income (Rs. crore)	1669.7	1749.0
PAT (Rs. crore)	-34.1	7.1
OPBDIT/OI (%)	5.2%	8.1%
PAT/OI (%)	-2.0%	0.4%
Total Outside Liabilities/Tangible Net Worth (times)	23.6	17.6
Total Debt/OPBDIT (times)	4.9	2.4
Interest Coverage (times)	3.0	4.0

Source: Annual reports; ICRA research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Rating (FY2021)		Amount Outstanding (as of March 31, 2020)	Current Rating 02-Sep-2020	Rating History for the Past 3 Years	
	Type	Amount Rated (Rs. Crore)			FY2020 31-May-2019	FY2018 30-Nov-2017
1 Long Term - Fund Based/ CC	Long term	55.00	Rs. 38.6 crore	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB(Stable)
2 Long Term - Fund Based TL	Long term	65.00	Rs. 53.5 crore	[ICRA]BBB-(Stable)	-	-

*Amount in Rs. Crore*

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	CC	-	-	-	55.00	[ICRA]BBB- (Stable)
NA	TL	29-Jul-2019	-	13-Mar-2023	65.00	[ICRA]BBB- (Stable)

Source: Company

---

## Corrigendum

**Document dated September 2, 2020 has been corrected with the revision as detailed below:**

- Section Revised: Under 'Rationale' on Page number 1, the first paragraph was revised to better portray the support provided by HCL, Korea
- Section Revised: Under 'Credit Strengths: Continued support from parent' on Page number 2, the paragraph was revised to better portray the support provided by HCL, Korea

## Analyst Contacts

**Subrata Ray**

+91 22 6114 3408  
subrata@icraindia.com

**Srikumar K**

+91 44 4596 4318  
ksrikumar@icraindia.com

**Nareshkumar N**

+91 44 4596 4313  
nareshkumar.n@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](mailto:communications@icraindia.com)

## Helpline for business queries:

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 020 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.