

February 12, 2021

Kyungshin Industrial Motherson Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	15.00	15.00	[ICRA]AA (Stable); Reaffirmed
Non-fund Based Limits	5.00	5.00	[ICRA]A1+; Reaffirmed
Unallocated	36.74	36.74	[ICRA]AA (Stable); Reaffirmed
Total Bank Line Facilities	56.74	56.74	
Commercial Paper	5.00	5.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation for Kyungshin Industrial Motherson Private Limited (KIML) continues to take into consideration (i) its strong parentage as a joint venture (JV) between Kyungshin Corporation (KSC), South Korea, and Motherson Sumi Systems Limited (MSSL, rated [ICRA]AA+(Stable)/A1+), (ii) its healthy financial risk profile and (iii) its established business position as a major supplier of wiring harness (WH) assemblies in the domestic passenger vehicle (PV) market. The company's business profile has been further augmented over the past year, aided by new business gained from Kia Motors (Kia), which forayed into the Indian market in August 2019.

KIML was set up as a JV between KSC and MSSL to supply WH assemblies to Hyundai Motors India Limited (HMIL) in India and in FY2020, the company added Kia to its portfolio. Despite the customer concentration risk, KIML's business risks are mitigated by its status as the major supplier of WH assemblies to HMIL (supplying for all models manufactured locally, except the new Creta) and sole supplier status with Kia, and their stable market standing. With regular new model launches and facelifts launched by HMIL and high acceptance of its models, it has remained the second largest player in the Indian PV market. Additionally, Kia has been able to gain acceptance in the highly competitive Indian PV market in a short time span. Together, these two original equipment manufacturers (OEMs) commanded 23% of the domestic PV market, and 33% of PV exports from India in 9M FY2021. Overall, ICRA expects that over the medium term, business from Kia would support its revenue growth and diversification, thereby strengthening its business profile.

As a JV between two established players WH assembly, KIML benefits from the access to their support, which has been primarily technical and operational in nature so far. Additionally, KSC's established global relationships with the Korean automakers such as Hyundai and Kia supported KIML's business prospects with the Indian subsidiaries of these manufacturers. Overall, despite increasing competition in WH supplies, ICRA believes that KIML's business prospects with HMIL and Kia remain stable, supported by its strong parentage and global relationships, which support its product development and process capabilities. Additionally, although KIML maintains a strong credit profile and is expected to meet its cash outflow requirements from its own sources, ICRA notes that the promoters will be willing to support the entity should the need arise.

Despite the healthy business position with its customers, ICRA notes that KIML has limited ability to pass on raw material and forex fluctuations through price adjustments. Accordingly, its operating profit margins (OPM) weakened significantly over the past three years because of cost reductions negotiated by the OEM in an environment of rising input costs. Additionally, pre-operative expenses for its new businesses, routed through the P&L, also had an impact on the OPM. The combination of all these factors resulted in approximately 1,000 bps contraction in the OPM since FY2017 to 4.8% in FY2020 and is likely to remain muted in the current fiscal on account of the pandemic-induced challenges. Nevertheless, KIML's financial risk profile remains

strong, characterised by nil debt, healthy cash flow generation and a comfortable liquidity profile. This has also been supported by lower dividend outflow and capex being funded through internal cash flows over the recent years. Accordingly, the company's credit metrics continue to remain strong.

ICRA would, however, continue to monitor KIML's ability to improve and sustain its profitability and return indicators going forward. Given that it does not have a strong pass-through mechanism with customers, subjecting it to adverse fluctuations in currency rates and raw material prices, its ability to protect margins through value-added value engineering (VAVE) and localisation initiatives remain critical. Further, owing to high import content in its raw material sourcing mix (77.7% in FY2020), KIML's ability to protect margins from adverse forex fluctuations hinges on appropriate hedging policies.

The Stable outlook on the long-term rating reflects ICRA's expectation that KIML would continue to maintain strong credit metrics going forward, despite the contraction in margins over the past three years. Its business prospects over the medium term would be supported by scale up in its Kia business, while the financial risk profile would remain supported by a healthy balance sheet and cash generation.

Key rating drivers and their description

Credit strengths

Strong parentage of KSC and MSSL ensuring support from both JV partners – As a JV between MSSL and KSC, Korea, which are both well-established players in the supply of automotive WH assemblies, KIML benefits from their support, which has been technical and operational in nature so far. Furthermore, the global relationships enjoyed by KIC with Korean automakers such as Hyundai and Kia augur well for its business prospects with the Indian subsidiaries of the OEMs. The company also shares its name with both the JV partners, resulting in high reputational sensitivity. While KIML continues to maintain a strong credit profile and is expected to meet its cash outflow requirements from its own sources, ICRA notes that the promoters will be willing to support the entity should the need arise.

Established relationships with leading PV OEMs, HMIL and Kia Motors, as major supplier of WH assemblies – As the major supplier of WH assemblies to HMIL and Kia Motors, which are leading PV OEMs in India, jointly accounting for 23% share of the domestic market and 33% of PV exports from India, KIML's business prospects remain stable. The OEMs have regularly launched new models and facelifts to stay relevant in the market and maintain market share.

New business gained from Kia augurs well for strengthening business prospects over medium term – In FY2020, KIML began supplying WH assemblies to Kia, which forayed into the Indian market in August 2019. KIML's sole supplier status for WH assemblies with Kia, and favourable response received in the market for the models launched so far, augur well for KIML's growth prospects over the medium term, as well as the overall strengthening of its business profile through diversification of customer profile.

Strong financial risk profile characterised by robust balance sheet with nil debt and comfortable cash balances – Despite weakening in its operating margins over the recent years, KIML continues to enjoy a strong financial risk profile, characterised by nil dependence on external borrowings and healthy cash balances. Accordingly, its credit metrics such as interest cover, Debt/OPBITDA and DSCR have remained superior vis-à-vis its peers. The capex for the new businesses have been funded from the existing cash balances and internal cash flow generation, resulting in minimal dependence on external borrowings. Although cash balances have moderated in the current fiscal owing to limited cash flows from operations in the first half, it is expected to improve again as operations scale up and the working capital cycle stabilises.

Credit challenges

Contraction in operating margins over past three years due to limited ability to pass on cost pressures – KIML's operating margins weakened sharply over the past three fiscals, primarily because of sizeable cost reductions passed on to the customer, in an environment of rising input costs. While copper prices had increased since FY2017, and foreign exchange headwinds increased import costs, the company had limited ability to pass on the same to its customer. Additionally, pre-operative

expenses for its new businesses, which were routed through the P&L, impacted its margins. Accordingly, the OPM weakened to 4.8% in FY2020 from 15.4% in FY2017 and are likely to remain muted in the current fiscal on account of the pandemic-induced challenges. However, the cash flow generation remains healthy, supported by lower dividend outflow and capex being funded through internal cash flows, resulting in nil dependence on external borrowings, and accordingly, minimal impact on credit metrics.

High customer and product concentration risks with majority of revenues driven by WH supplies to HMIL; new business from Kia should reduce dependence on HMIL – The company’s business profile is characterised by high concentration risk as its customer and product portfolio remains limited. As per the JV agreement between KSC and MSSL, KIML is restricted from competing with MSSL in supplying to OEMs, wherein the latter has a presence. This limits KIML’s opportunity for reducing its customer concentration. However, given the new business from Kia, which is scaling up, its dependence on HMIL should gradually reduce over the medium term.

Earnings in current fiscal to be impacted by restricted production in the initial months – With the lockdown imposed to curtail the Covid-19 pandemic in the first few months of the fiscal, the domestic automotive industry faced severe supply and demand disruption. Although operations have hence revived on a sequential basis, the full-year earnings are likely to remain impacted by the losses incurred in the first few months, when the company continued to incur fixed operational overheads, but revenues were limited. However, this is expected to revive over the medium term as normalcy sets in.

Exposed to foreign exchange fluctuation risks as most of its raw materials are imported; any sharp fluctuation in currency movement impacts KIML’s profitability indicators – The company imports a major proportion of its raw material requirement from its parent company in Korea, resulting in significant import content (77.7% in FY2020) and vulnerability of earnings to adverse forex movements. In FY2020, the INR depreciation against the US\$ had a moderating impact on the company’s profitability, which is estimated at Rs. 10.2 crore.

Liquidity position: Strong

KIML’s liquidity position is **Strong**, supported by healthy cash flow generation from operations of around Rs. 60 crore and adequate buffer in unutilised working capital facilities (Rs. 15 crore of sanctioned limits have been primarily unutilised over the years; drawing power of more than Rs. 100 crore). The capex requirements for new business of Rs. 85 crore in the current fiscal are expected to be funded by available cash balances (Rs. 88.2 crore as on December 31, 2020), cash generated from operations and available credit lines.

Rating sensitivities

Positive factors – Material strengthening of business profile supported by diversification of the customer base, segment and product mixes would be critical for a positive rating movement.

Negative factors – Downward pressure on the ratings could arise in case of further weakening in profitability or due to significant debt-funded capex, resulting in moderation of core ROCE below 20% on a sustained basis. Additionally, any deterioration in credit profile of the parent companies, or reduced strategic focus on the entity could also trigger a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer’s Credit Rating Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Parent/Group Company: Motherson Sumi Systems Limited (rated [ICRA]AA+(Stable)/A1+), Kyungshin Corporation, South Korea The ratings are based on the implicit support from its parent company
Consolidation/Standalone	The rating is based on the company’s standalone financial profile.

About the company

Incorporated in October 1997, KIML is a 50:50 joint venture between Kyungshin Corporation, South Korea, and Motherson Sumi Systems Limited, India. The company is a key supplier of wiring harness system assemblies in the domestic passenger vehicle market, with major customers being Hyundai Motors India Limited and Kia Motors. Its manufacturing assets are located in Tamil Nadu and Andhra Pradesh, from where it supplies to HMIL and Kia, respectively. By virtue of the established global relationship between KSC and Hyundai and Kia, the company has cemented its market position as the sole domestic supplier of wiring harness assemblies to Kia Motors and major supplier to HMIL.

Key financial indicators (audited)

Kyungshin Industrial Motherson Private Limited	FY2019	FY2020
Operating Income (Rs. crore)	1,382.8	1,605.2
PAT (Rs. crore)	69.2	39.6
OPBDIT/OI (%)	6.6%	4.8%
RoCE (%)	28.7%	14.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	1.1
Total Debt/OPBDIT (times)	0.0	0.6
Interest Coverage (times)	214.7	19.3
DSCR (times)	179.1	16.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Average (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year) *Note: FY2020 financials include the impact of Ind AS 116 adoption, whereas FY2019 does not; hence YoY results are not comparable*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
				Feb 12, 2021	Feb 20, 2020	Jan 25, 2019	Dec 15, 2017	
1 Fund Based Limits	Long-term	15.00	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	
2 Non-fund Based Limits	Short-term	5.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3 Unallocated	Long-term	36.74	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	
4 Commercial Paper	Short-term	5.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

&: On rating watch with developing implications

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 www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs.crore)	Current Rating and Outlook
NA	Fund-based Limits	NA	NA	NA	15.00	[ICRA]AA(Stable)
NA	Non-fund Based Limits	NA	NA	NA	5.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	36.74	[ICRA]AA(Stable)
NA	Commercial Paper	NA	NA	7-365 days	5.00	[ICRA]A1+

Source: Company

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

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