

November 29, 2022

## L S Automotive India Private Limited: Ratings Assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	79.29	[ICRA]BB+ (Stable); Assigned
Short-term Fund-based- Working Capital	282.80	[ICRA]A4+; Assigned
Long-term/ Short -term – Unallocated	37.91	[ICRA]BB+(Stable)/[ICRA]A4+; Assigned
<b>Total</b>	<b>400.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings favourably factor in LS Automotive India Private Limited's (LS India) established operational track record of over a decade, healthy share of business with its major customer Hyundai Motors India Limited (HMIL) and favourable demand outlook for Passenger Vehicles (PVs) in the medium term. The long-standing relationship with HMIL stems from LS India's parent company, LS Automotive Technologies Co Ltd (LATCL) which caters to Hyundai Motor Company, Korea's global requirement. The ratings also factor in the significant improvement in scale of operations to Rs. 872.4 crore in FY2022 from Rs. 514.7 crore in FY2021 on the back of increased offtake from HMIL and wallet share of other Original Equipment Manufacturers (OEMs). The OPBDITA margins improved to 6.1% in FY2022 from 2.7% in FY2021 and net margins expanded to 0.6% in FY2022 from -0.3% in FY2021. The ratings also consider the presence of operational / technical and financial support received from its parent, by way of equity infusion, extended credit and corporate guarantee on loans taken by LS India. ICRA notes that the parent has infused ~Rs. 236.4 crore as funding support for capex purposes between FY2019 and FY2020. The company also receives flexible credit period from parent. In FY2022, ~Rs. 132.2 crore of payables from parent was converted into equity. LS India sources ~80-90% of its raw material from its parent company and is in-turn involved in manufacturing and assembly of the final product for supply to OEMs. Being a critical HMIL supplier with a Korean HMC-supplier parent, the company enjoys healthy relationship with its lenders who draw comfort from the parent's global banking relationships.

The ratings are however constrained by a moderate financial profile, characterized by low profit margins, accumulated losses over the course of years and susceptibility of margins to fluctuations in raw material prices and foreign exchange rates. However, ICRA notes that the net worth position is supported to some extent by the financial support provided by its parent by way of equity infusions when the need arises. Low margins, moderate net-worth position and higher reliance on working capital debt has resulted in stretched debt coverage and capitalisation indicators with Total Debt (TD)/OPBDITA at 6.5 times and Total Outside Liabilities (TOL)/Tangible Net worth (TNW) 2.0 times as on March 31, 2022 (provisional data). The ratings also consider the high customer and geographical concentration risks although the same is mitigated to an extent by the established customer profile and high share of business; LS India caters to majority of HMIL's requirements for combination switches. ICRA also notes the sizeable amount of insurance claim that is pending, pertaining to the recovery for damages caused by the fire accident, and the extent of recovery remains to be seen.

The stable outlook on the long-term rating reflects ICRA's expectation that the company would continue to benefit from the long-standing relationship with HMIL, strong parentage and the favourable demand outlook for PVs in the medium term.

## Key rating drivers and their description

### Credit strengths

**Established relationship with HMIL** – LS India benefits from healthy share of business with its key customer HMIL, owing to its established track record of operations and customer relationship of its parent company, LS Automotive Technologies Co Ltd (LATCL) with Hyundai Motor Company, Korea. LS India supplies various combination switches, relays, interior lamps etc to majority of the popular vehicle models of HMIL.

**Presence of operational/technical and financial support from parent based in Korea** – LS India benefits from strong operational and technical capabilities of its group company in Korea which has been in the auto component manufacturing business since 1973. Moreover, LS India also benefits from financial support provided by its parent by way of equity infusion (Rs.236.4 crore in FY2019 and FY2020), extended credit on raw materials and machinery purchases and corporate guarantee on bank loans taken by LS India.

### Favourable demand outlook

Demand for auto components stems from domestic OEMs, replacement and exports. Increase in mobility, supported partly by unlock after the pandemic and improvement in economic activity are likely to aid demand in the near term. The industry is also expected to benefit from easing supply chain scenario which is expected to improve volumes at the dealer level.

### Credit challenges

**High segment, customer and geographical concentration** - With ~97% of revenues derived from passenger vehicles, over ~70% of revenues from a single customer (Hyundai group), and ~66% revenues from the domestic market, the company is exposed to high customer, segment and geographical concentration risk. However, the same is mitigated by the fact that LS India has an established relationship with its key customer HMIL. The company also benefits from indirect geographical diversification by way of healthy share of HMIL's export of its vehicles.

**Moderate capitalisation and coverage indicators**– LS India has accumulated loss to the tune of ~Rs.170.9 crore as on March 31, 2022 (provisionals) due to weak margins and extraordinary loss suffered due to a fire accident in its premises, in addition to forex loss. The net worth however is supported by the equity infusions by the parent post the fire incident for capex purpose and also partly due to the conversion of certain portion of creditors which was converted into equity in FY2022. Low margins, moderate net-worth position and higher reliance on working capital debt has resulted in stretched debt coverage and capitalisation indicators with Total Debt (TD)/OPBDITA at 6.5 times and Total Outside Liabilities (TOL)/Tangible Net worth (TNW) 2.0 times as on March 31, 2022 (provisional data). The stretched financial risk profile is mitigated to an extent by the fact that the company has financial flexibility due to parentage with respect to raising funds, explicit support from the parent like corporate guarantee on LS India's bank lines and the extended credit period which provides cushion to the working capital position.

**Profitability susceptible to fluctuations in foreign currency** – The company's profitability at the standalone level is susceptible to fluctuations in foreign currency as there is no hedging policy at standalone level, akin to other HMIL suppliers. However, since the majority of import purchases are from the parent, the net impact of forex fluctuations at group level is expected to be muted.

### Liquidity position: Stretched

The liquidity position is stretched because of thin margins and working capital intensive nature of operations marked by net-working capital intensity of ~25% in FY2022. This has resulted in higher dependence on working capital lines, marked by the utilization of bank lines being relatively higher at ~80% for the last six months period ended August'2022. The company has

repayment obligation of ~Rs. 12 crore in FY2023 and cash balance as on March 31, 2022 (provisional) stood at ~Rs. 44 crore. The working capital position is supported to some extent from the favorable credit terms the company receives from LATCL.

## Rating sensitivities

**Positive factors** – Substantial growth in revenues and profitability and consequent improvement in TD/OPBITDA to below 2.0 times on a sustained basis could result in a ratings upgrade.

**Negative factors** – Sustained deterioration of margins and widening of accumulated loss position without a corresponding funding support from the parent and consequent deterioration of liquidity position could lead to a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for Auto component suppliers</a>
Parent/Group Support	Ratings factor in the implicit support of parent LATCL and ultimate parent LS Mtron Limited.
Consolidation/Standalone	Standalone

## About the company

LS Automotive India P Ltd (LS India/ the company), formerly known as Daesung Electric India Private Limited was incorporated in September 2006 for manufacturing switches, relays, audio, boards for the auto component industry, primarily for catering to HMIL (Hyundai Motors India Limited). LS India is a subsidiary of LS Automotive Technologies Co Ltd (LATCL), which is in turn held by a JV between LS Mtron Ltd and Pantheras Holdings LLS (investment entity of KKR & Co). LS India has two manufacturing facilities in India, one in Chennai and a smaller plant in Pune. Company currently undertakes assembly of switches from subcomponent materials received majorly from the Korean parent company and a small proportion procured locally. The company's revenues in FY2022 (provisional) stood at Rs. 872.4 crore, with a PAT of Rs. 5.2 crore.

## Key financial indicators (audited/provisional)

LS India Standalone	FY2021	FY2022*
Operating Income (Rs. crore)	514.7	872.4
PAT (Rs. crore)	-1.3	5.2
OPBDIT/OI (%)	2.7%	6.1%
PAT/OI (%)	-0.3%	0.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	2.2
Total Debt/OPBDITA (times)	9.3	6.5
Interest Coverage (times)	2.0	6.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*provisional

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

**Any other information:** None

### Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History			
		Type	Amount Rated	Amount Outstanding as of August 31, 2022	Date & Rating in	Date & Rating in FY2022	for the past 3 years		
			(Rs. crore)	(Rs. crore)			Date & Rating in FY2021		Date & Rating in FY2020
					29-Nov-2022	-	12-Oct-20	7-Sep-20	9-Oct-19
1	Term Loans	Long-term	79.29	66.88	[ICRA]BB+(Stable)				
2	Buyer's Credit	Short term	158.59	-	[ICRA]A4+				
3	Packing Credit	Short term	119.21		[ICRA]A4+				
4	Working Capital Demand Loan	Short term	5.00		[ICRA]A4+				
5	Unallocated	Long-term/short term	37.91	-	[ICRA]BB+(Stable)/ [ICRA]A4+				
6	Issuer Rating	Long-term	-	-	-	-	[ICRA]BB-(Stable); Withdrawn	[ICRA]BB-(Stable)*	[ICRA]BB-(Stable)

Source: company; \*put on notice of withdrawal

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Buyer's Credit	Very Simple
Packing Credit	Very Simple
Working Capital Demand Loan	Very Simple
Unallocated	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 analyzing 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, is available on ICRA's website: [Click Here](#)

**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	Term Loan	FY2022	-	-	79.29	[ICRA]BB+ (Stable);
NA	Buyer's Credit	-			158.59	[ICRA]A4+;
NA	Packing Credit	-			119.21	[ICRA]A4+;
NA	Working Capital Demand Loan	-			5.00	[ICRA]A4+;
NA	Unallocated	-			37.91	[ICRA]BB+ (Stable)/[ICRA]A4+;

**Source:** Company; \*not available as it depends on drawdown.

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

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

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Nithya Debbadi**

+91 40 4067 6515

[nithya.Debbadi@icraindia.com](mailto:nithya.Debbadi@icraindia.com)

**Srikumar K**

+91 44 4596 4318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Sachidanand Thillai**

+91 74015 51867

[sachidanand.thillai@icraindia.com](mailto:sachidanand.thillai@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto: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)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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