April 04, 2024

Mobis India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Short-term Fund-based facilities@	$50 million + Euro 20 million	$50 million + Euro 20 million	[ICRA]A1+; Reaffirmed
Total	**$50 million + Euro 20 million**	**$50 million + Euro 20 million**	

**Instrument details are provided in Annexure-1; @Although the external commercial borrowings are denominated in foreign currency, ICRA's rating for the same is on the national scale as distinct from an international rating scale*

Rationale

The reaffirmation of rating for the bank lines of Mobis India Limited (MIL) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by its strong business profile being a key supplier to Hyundai Motors India Limited (HMIL), its sizeable aftermarket presence and superior liquidity. The company's financial profile remains strong, supported by healthy scale of operations, strong earnings, its debt-free status and superior liquidity with cash reserves of Rs. 2,842.5 crore as on February 29, 2024. MIL is a wholly-owned subsidiary of Hyundai Mobis Co., South Korea (HMobis), and enjoys strong operational and financial linkages with its parent. The parent is part of the Hyundai Global Group and is a critical component supplier for Hyundai Motor Company, Korea (HMC). In turn, MIL is one of the larger suppliers to Hyundai Motors India Limited (HMIL), a leading player in the Indian passenger vehicle (PV) market.

Apart from direct supply of modules to HMIL, MIL is also a key distributor of aftermarket parts for HMIL and Kia India Private Limited (KIPL) in India. The company's significant contribution from its aftermarket business lends stability to its earnings. MIL's revenues stood at Rs. 14,766.1 crore in 11M FY2024 (annualised growth of 13.4%), supported by growth in HMIL's sales volumes, ramp up in volumes to KIPL, growth in aftermarket business and higher content per vehicle. MIL's operating profit margins (OPM) remain supported by its product mix and localisation measures and were healthy at 10.6% in FY2023 and 11.7% in 11M FY2024.

However, MIL has high customer concentration with HMIL, and its revenues are susceptible to the cyclical trends in the auto industry. Nevertheless, MIL's sole supplier status with HMIL, the latter's strong market share in the Indian PV industry (at ~15% for 11M FY2024) and revenue diversification through aftermarket presence mitigate the risk to an extent. Also, MIL's earnings are vulnerable to fluctuations in foreign exchange (forex) rates in the absence of any hedging policies at the company level in India and any supply chain issues could also have a bearing on production volumes, although forex hedging at the parent level mitigates the former risk to an extent. ICRA expects a growth of 6-9% for the domestic PV segment and 5-7% for auto component aftermarket in FY2025; MIL's revenue growth is also expected to be broadly in line with the industry and OEM growth. Its margins are also expected to remain healthy, supported by healthy content per vehicle and localisation measures. The company is expected to remain net debt negative over the medium term, with sizeable cash balances, despite any significant dividend payouts.

Key rating drivers and their description

Credit strengths

Strong financial profile – MIL's scale is healthy at Rs. 14,202.3 crore in FY2023 and Rs. 14,766.1 crore in 11M FY2024 (annualised growth of 13.4%), supported by growth in HMIL's sales volumes, ramp up in volumes to KIPL, growth in aftermarket business and higher content per vehicle. MIL's operating profit margins (OPM) remain supported by its product mix and localisation measures and were healthy at 10.6% in FY2023 and 11.7% in 11M FY2024 Aided by healthy accruals over the years, the liquidity position is superior with cash and liquid investments balance of Rs. 2,842.5 crore, as on February 29, 2024, and undrawn working capital lines of Rs. 600 crore (nil utilisation during the period March 2023 - February 2024). The company has remained debt free in the last several years and is likely to remain so going forward as well, in the absence of debt-funded capex. The company's financial profile is expected to remain strong over the medium term.

Strong parentage of HMobis, South Korea; strong linkage between HMC Korea and HMobis Korea – MIL is a wholly-owned subsidiary of HMobis and enjoys strong operational and financial linkages with its parent. The parent is part of the Hyundai Global Group and is a large supplier to HMC. In turn, MIL is one of the large, critical component suppliers for HMIL, apart from airbags and audio systems to KIPL. MIL enjoys strong technological support from its parent HMobis, whose research and development (R&D) activities are in turn closely linked to that of the R&D plans of HMC.

Significant aftermarket presence provides business stability – The company acts a key distributor of aftermarket parts for HMIL and KIPL in India. Sizeable presence in the aftermarket segment has resulted in stable business for the company, even during periods of OE slowdown, and has aided in healthy growth in revenues over the years. Further, MIL's strong operational linkages with its primary customer, HMIL, a leading player in the domestic PV market, aids in healthy volumes for the company. It is the sole supplier for several components to HMIL (which drove ~56% of MIL's revenue in FY2023).

Credit challenges

High customer concentration – MIL has a high customer concentration with ~56% of its revenues derived from sales to HMIL in FY2023. The rest of its revenues primarily consisted of sales to KIPL, aftermarket sales and R&D services to its parent company (HMobis). While the revenue concentration exposes it to risks arising from underperformance of the top customer or loss of its top client to competition, the risk is partly offset by the company's healthy share of business with HMIL and HMIL's healthy market share in the PV segment; MIL being the key distributor of aftermarket parts for HMIL and KIPL in India; and increase in volumes from KIPL.

Earnings susceptible to inherent cyclicality in the auto industry and unfavourable forex movements – MIL derived ~66% of the revenues in FY2023 from sales to PV original equipment manufacturers (OEM), thus exposing it to the cyclical trends in the auto industry. However, revenue diversification through its aftermarket presence provides comfort. MIL derived ~10% of its revenues from exports, while imports constituted ~21% of its raw material cost in FY2023. As a net importer and in the absence of a hedging mechanism at the company level in India, MIL's earnings are vulnerable to unfavourable movements in exchange rates. Nevertheless, forex hedging at the parent level mitigates these risks to an extent.

Liquidity position: Superior

The company's liquidity is superior, supported by its healthy anticipated accruals, unencumbered cash and bank balance of Rs. 2,842.5 crore and undrawn working capital lines of Rs. 600 crore as on February 29, 2024. MIL has remained debt-free in the last several years. Against these sources of cash, MIL has capex plans of Rs. 300.0 crore each in FY2025 and FY2026 towards maintenance and capacity enhancement, expected to be funded through internal accruals. Given the high cash and bank balance, strong business accruals, nil term debt repayments, as well as the buffer available in the form of unutilised bank limits, the liquidity profile of the company is expected to remain superior going forward, with cash expected to remain at over Rs. 1,000 crore over the medium term, despite any significant dividend payouts (it paid dividend of over Rs. 800 crore in FY2023).

Rating sensitivities

Positive factors – NA

Negative factors – Negative pressure on MIL's rating could arise in case of any significant weakening in credit profile owing to lower-than-anticipated revenues. Any weakening of operational linkages with the parent company, HMobis, or HMIL, could also impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Mobis India Limited, with presence for close to two decades, is a wholly-owned subsidiary of Hyundai Mobis Co. Limited, Seoul, South Korea. The parent is part of the Hyundai Global Group and is a large supplier to Hyundai Motor Company, Korea. MIL operates in two major business segments—(a) supplier of modular parts assembly, airbags and audio systems to HMIL and airbags and audio systems to KIPL; and (b) distributor of 'Hyundai' genuine spares in the aftermarket and a key distributor of aftermarket parts of KIPL. The modular parts business comprises procuring auto components from tier-2 vendors and assembling modules for HMIL. MIL is one of the larger tier-I suppliers of HMIL under this segment. In the aftermarket business, the company is a key distributor of aftermarket parts for HMIL and KIPL, with warehouses across Chennai, Delhi, Mumbai, Kolkata, Anantapur and Indore. While the modular segment generated ~66% of its overall revenues in FY2023, the spares business contributed ~32%. The balance came from R&D services for its parent, HMobis.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	11,094.0	14,202.3
PAT	922.6	1,109.1
OPBDIT/OI	12.0%	10.6%
PAT/OI	8.3%	7.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	154.4	191.0

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

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	Amount outstanding as of Dec 31, 2023	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 04, 2024	Apr 06, 2023	-	Feb 11, 2022
1	Short- term fund- based facilities @	Short term	USD 50 million + Euro 20 million	-	**[ICRA]A1+**	**[ICRA]A1+**	-	**[ICRA]A1+**

@Although the external commercial borrowings are denominated in foreign currency, ICRA's rating for the same is on the national scale as distinct from an international rating scale

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund- based facilities	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	Current Rating and Outlook
NA	**Fund-based limits**	NA	NA	NA	$ 50 million + Euro 20 million	[ICRA]A1+

Source: Company

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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