December 05, 2024

Yazaki India Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term — fund based - Term Loan	233.3	[ICRA]A- (Stable); assigned
Short term – Non Fund based - Buyers credit Limit	30.0	[ICRA]A2+; assigned
Long Term – fund based - Working Capital Demand Loan	54.0	[ICRA]A- (Stable); assigned
Short Term – fund- based - Bill Discounting	122.7	[ICRA]A2+; assigned
Total	**440.0**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings consider the strong operational and financial support enjoyed by Yazaki India Private Limited (YIPL) from its parent, Yazaki Corporation Japan(YC). YC is a market leader in wire harness industry and operates across 45 countries and has business ties with major automotive OEMs worldwide. The company continues to benefit from operational, financial and technological support from its parent entity. Moreover, ICRA also expects YC to provide need-based support to YIPL. The rating also factors in healthy business profile of YIPL, marked by high market share in the wire harness segment, healthy share of business (SoB) with most of the leading original equipment manufacturers (OEM) and its diversified customer base.

ICRA notes that the YIPL's scale has increased over the last four years, aided by the organic growth of its customers and expansion of its customer base. It registered a YoY revenue growth of ~20% to ~Rs. 4,138.3 crore in FY2024 aided by healthy order book position. ICRA also notes the planned introduction of technologically advanced products in FY2025 and FY2026 which augurs well for its revenue growth over the medium term.

The rating is constrained by modest operating margins of the company, given its concentration towards the wire-harness segment. Notwithstanding the entry into new products, the operating margins are expected to remain under pressure over the next two years, till the capacities ramp up. The company is also in the midst of undertaking large debt-funded capex towards these products, with an estimated outlay of Rs. 600 crore in FY2025 and Rs.400-500 crore per annum in FY2026 and FY2027. This is expected to keep the debt levels elevated and lead to subdued debt coverage indicators.

The long-term rating remains constrained to an extent by the company's high segment concentration on the passenger vehicle (PV) sector, vulnerability of profitability to fluctuations in raw material prices and stiff competition from both domestic and international players.

The Stable outlook on the long-term rating reflects ICRA's expectation that YIPL credit profile will gradually improve led by the capacity ramp in the new plants which will lead to improvement in its OPMs. The company will continue to benefit will continue to benefit from its strong parentage as a subsidiary of YC and strong business profile.

Key rating drivers and their description

Credit strengths

Strong parentage and extensive experience of the management – YC is a leading automotive component company and enjoys a healthy market share in the wiring harness business globally. It has presence in over 45 countries with more than 450 facilities across locations. YIPL, being a part of the Yazaki Group, enjoys strong operational linkages with the parent company as well as benefits from the superior financial flexibility with parent company providing corporate guarantees for all the existing debt of the company. ICRA also expects its parent, YC, to provide need-based funding support to YIPL as evident from the past instances where the parent company has infused funds in YIPL both by way of equity as well as through external commercial borrowings (ECB). The ECBs have also been refinanced by YIPL, depending on its funding requirements and cash flows. The company receives significant support from its ultimate parent company, YC, in the form of technical knowhow, which has aided its revenue growth over the years by helping it gain business from various OEMs. The company also benefits from the extensive experience of its management.

Established market position in the Indian wiring harness segment; diversified customer base – YIPL is the second-largest manufacturer of wire harnesses in India with a market share of around 25%, as per management's estimates. In the automotive industry, it supplies wire harness to reputed OEMs including Maruti Suzuki India Ltd., Tata Motors Ltd., Toyota India Limited and Ashok Leyland Ltd. among others. YIPL has a diversified customer portfolio, with the top five customers accounting for 64% of the company's revenues in FY2024.

Apart from manufacturing wiring harness systems for conventional internal combustion engine (ICE) vehicles, the company has started designing and developing wiring harness systems for electric vehicles (EVs). Its capability to manufacture high voltage (HV) wiring harness is likely to help it in securing business from the EV segment, once the penetration of EVs increases in India. Moreover, YIPL has undertaken capex to increase capacity of its component and wire harness systems, to cater to the demand from new clients. It is also setting up factories for augmented reality head-up display (ARHUD) and Battery Disconnect Unit (BDU), which should further support the revenue growth and market position in the medium term.

Growing scale of operations with healthy order book position – The demand in auto components is directly linked with the demand of automobiles and thus the company has witnessed a growing trend in its scale of operations in the last three years ended on March 31, 2024, and recorded revenues of Rs. 4,138 crore in FY2024. The company has already clocked revenues of ~Rs. 2,000 crore in H1 FY2025. It has a healthy order book position of Rs. 400 crore per month and is expected to clock revenues worth Rs. 4,600-4,800 crore in FY2025. ICRA also notes the planned introduction of technologically advanced products in FY2025 and FY2026, which augur well for its revenue growth over the medium term

Credit challenges

Expected moderation in financial risk profile in the near-term, led by the debt-funded capex undertaken by the company – Despite the entry into new products, the operating profit margins are expected to remain under pressure over the next two years, till the capacities ramp up. The operational costs such as technology and training expenses, employee cost, and freight charges, led by the setting up of new plants, will increase in FY2025 while revenues are expected to increase only gradually, impacting the OPM in FY2025. The capital structure of the company is expected to remain leveraged in the near term, as the company is in the middle of undertaking large debt-funded capex of Rs. 600 crore towards greenfield investments for setting technology-based products like i.e. HV Battery Disconnect Unit (BDU), Augmented Reality Head-Up Display (ARHUD), which is being funded through term loan of Rs. 240 crore and the balance through ECB from the parent company worth Rs. 300 crore and internal accruals. Going forward, with increase in revenues and profits along with reduction in debt levels, the coverage metrics are expected to improve gradually.

Moderate operating margins due to labour-intensive nature of wire-harness business; remains susceptible to volatility in raw material prices – YIPL's OPM remained moderate in the range of 7-9% over the last three years, given the revenue concentration towards the wire harness segment, which is labour intensive in nature as it involves a number of manual processes. Raw materials cost accounted for 68% of revenues in FY2024. Further, the company imports 30-40% of its raw material requirement from various countries such as Japan and Vietnam. Copper is the main raw material for the company and being a commodity, the prices are market driven. Thus, the profitability also remains vulnerable to fluctuations in the cost of raw materials. The company generally imports connector, terminal, wire and tubes from Japan and Vietnam, which exposes it to the foreign exchange rate fluctuation risk. However, the risk is mitigated to an extent as it hedges exposure through forward contracts, including the foreign borrowings.

High segment concentration in PV sector; stiff competition from domestic and international players – Most of YIPL's sales are generated from the domestic PV segment, which accounts for 60% of its revenues, making its earnings susceptible to the performance of the domestic PV industry. However, the high segment concentration risk is partially mitigated by the company's diversified customer mix. YIPL also faces significant competition from domestic and international players for its wiring harness as well as advanced safety and user experience products. Although the EDS division has grown significantly over the last three years, its scale of operations remains lower than Motherson Sumi Wiring India Limited (MSWIL), the market leader in the wiring harness business for the domestic PV industry. Along with its Group company, Kyungshin Industrial Motherson Limited (KIML), MSWIL enjoys leadership position in the domestic PV industry and healthy SoB in the domestic CV industry. Besides MSWIL and KIML, YIPL also faces competition from other domestic incumbents, such as Furukawa Minda Electric Pvt. Ltd. and Aptiv Components India Private Limited. Nevertheless, YIPL's established relationship with its customers led by strong brand name, continues to support its business prospects and mitigate the risk to some extent

Liquidity position: Adequate

The liquidity position of the company is adequate, supported by liquid balance of Rs. 26.9 crore as on March 31, 2024, and unutilised working capital limits of Rs. 598.4 crore as on June 30, 2024, which provide additional liquidity buffer. The company has refinanced its maturing ECB loan of Rs. 267 crore from the parent company and has scheduled repayment of Rs. 40.0 crore in FY2025 and Rs.73.3 crore in FY2026. Moreover, the capex envisaged is around Rs.600 crore for FY2025 towards greenfield investments for setting up technology-based products. This will be funded through term loan of Rs. 260 crore from the bank, of which the first tranche of Rs.30 crore has been received from the company. The balance Rs. 300 crore will be funded through ECB from the parent company.

Rating sensitivities

Positive factors – The company's ability to strengthen its business profile by securing new businesses and ramp up the new capacities, while improving its operating profit margins and debt coverage indicators, will be considered favourably for an upward revision in the rating. Equity infusion by the holding company which leads to material improvement in the capital structure will also be considered positively.

Negative factors – The ratings could be downgraded in case of any sharp decline in revenues and profits or any additional large debt-funded capex, adversely impacting YIPL's debt coverage indicators. The ratings could be downgraded in case of significant weakening of operational or financial linkages with the parent company or material weakening in the credit profile of YC

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Holding Company- Yazaki Corporation, Japan. ICRA expects YC to provide need-based funding support to YIPL.
Consolidation/Standalone	Standalone

About the company

YIPL is involved in engineering, designing and manufacturing of wiring harness for various segments of the automobile industry including passenger cars and commercial vehicles. The company has 11 manufacturing facilities and plans to commence four more by June 2025.

YIPL was initially incorporated as a joint venture between Tata Autocomp Systems Limited and Yazaki Corporation and was manufacturing wire harness predominately for Tata Motors Limited and Toyota only. Subsequently on January 1, 2013, the JV was dissolved, and the company became a 100% subsidiary of Yazaki Corporation and became Yazaki India Limited. In FY2015, the name was subsequently changed to the current one

Key financial indicators (audited)

	FY2023	FY2024
Operating income	3,454.5	4,138.3
PAT	128.1	116.2
OPBDIT/OI	9.6%	8.5%
PAT/OI	3.7%	2.8%
Total outside liabilities/Tangible net worth (times)	6.7	4.7
Total debt/OPBDIT (times)	3.5	4.2
Interest coverage (times)	4.5	3.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long-Term	233.3	Dec 05, 2024	[ICRA]A-(Stable)	-	-	-	-	-	-
Non Fund based - Buyers credit Limit	Short-Term	30.0	Dec 05, 2024	[ICRA]A2+	-	-	-	-	-	-
fund based - Working Capital Demand Loan	Long-Term	54.0	Dec 05, 2024	[ICRA]A-(Stable)	-	-	-	-	-	-
fund- based - Bill Discounting	Short-Term	122.7	Dec 05, 2024	[ICRA]A2+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term — fund based - Term Loan	Simple
Short term – Non Fund based - Buyers credit Limit	Simple
Long Term – fund based - Working Capital Demand Loan	Simple
Short Term – fund- based - Bill Discounting	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
NA	Long Term — fund based - Term Loan	FY2025	8.5%-8.85%	FY2030	233.3	[ICRA]A- (Stable)
NA	Short term – Non Fund based - Buyers credit Limit	NA	NA	NA	30.0	[ICRA]A2+
NA	Long Term – fund based - Working Capital Demand Loan	NA	NA	NA	54.0	[ICRA]A- (Stable)
NA	Short Term – fund-based - Bill Discounting	NA	NA	NA	122.7	[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.

For more information, visit www.icra.in

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