

January 10, 2017

Kyungshin Industrial Motherson Private Limited

| Instrument [^] | Amount (in crore) | Rating Action |
|---------------------------------|-------------------|----------------------------------|
| Long Term Fund Based Facilities | 15.00 | Reaffirmed at [ICRA] AA-(Stable) |
| Non Fund Based Facilities | 5.00 | Reaffirmed at [ICRA]A1+ |
| Proposed Fund Based Facilities | 36.74 | Reaffirmed at [ICRA] AA-(Stable) |
| Commercial Paper/ STD Programme | 5.00 | Reaffirmed at [ICRA]A1+ |

Instrument Details captured under Annexure-1

Rating Action

ICRA has reaffirmed the long term rating at [ICRA]AA- (pronounced ICRA double A minus) and the short term rating at [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 56.74 crore¹ bank facilities and Rs. 5.00 crore CP/STD programme of Kyungshin Industrial Motherson Private Limited ('KIML' or 'the company')†. The long term rating has a 'stable' outlook.

Rationale

The rating reaffirmation factors in the healthy scale up in operations of the company over the past two fiscals, driven largely by an improved product mix (i.e. increasing share of models with higher content per vehicle) , while sales volumes increased only marginally. The company's wiring harness supplies to Hyundai Motor India Limited (HMIL) has shifted over the past two years towards higher segment models like Grand i10, Elite i20 and Creta while lower-value models like i10, Santro and i20 have been gradually phased down and this has supported the revenue growth of the company during the period. The rating action also continues to factor in the company's status as sole supplier of wiring harness assemblies to HMIL in India; strong performance of HMIL in the domestic passenger vehicle market as the second largest player with a market share of 17% in FY2016 supports revenue growth prospects for the company.

The rating decision also continues to factor in the strong parentage of KIML, by virtue of being a joint venture between Motherson Sumi Systems Limited (MSSL, rated [ICRA]AA(Stable)/A1+) and Kyungshin Industrial Corporation (KIC), Korea, both of which are established players in the wiring harness market. The ratings also continue to draw support from the strong financial risk profile of the company, with sizeable cash balances (Rs. 104 crore as on March 31, 2016), healthy accruals from operations, robust profitability indicators and its debt-free position over the years.

In spite of these positives, the ratings continue to be constrained by the high product and customer concentration risks of the company, with the scope for diversifying its customer base remaining limited due to the non-compete clause it has in place with its parent, MSSL. Accordingly, the scale up in operations of the company also remains linked to the performance and sales volumes of HMIL; ICRA notes that KIML's sales volumes have remained range-bound over the past several fiscals due to near total utilization at HMIL's existing facilities. The company is also exposed to foreign exchange fluctuation risks on account of high proportion of raw materials being imported (nearly 75-80%); however, the same is mitigated to some extent by virtue of the company's ability to adjust its pricing with the OEM. ICRA also takes note of the company's medium term capex requirements wherein it would be shifting manufacturing from a leased to owned facility; however, given the strong liquidity position and cash accruals of the company, the reliance on external borrowings for funding the capex would remain minimal.

¹ 100 Lakh = 1 Crore = 10 million

† For detailed rating scales and definitions refer the ICRA website www.icra.in or other ICRA publications

Key rating drivers

Credit Strengths

- Strong parentage being a 50:50 joint venture between Motherson Sumi Systems Limited (MSSL, rated [ICRA]AA(Stable)/A1+) and Kyungshin Industrial Corporation, Korea which ensures access to technical and financial support from both the parent companies
- Sole supplier status of KIML for wiring harness system assemblies to HMIL; strong relationship enjoyed with the client and strong position of HMIL as second largest player in the Indian PV market reduces business risks significantly
- Strong liquidity and financial risk profile with healthy profitability indicators, minimal debt and sizeable cash balances
- Shift in sales mix towards models with higher content per vehicle such as Elite i20, Grand i10 and Creta which entail higher product realizations augurs well for improvement in revenues and profitability of the company

Credit Weakness

- Significant client and product concentration by virtue of being a single-product and single-customer company; scale up in volumes of the company remains linked to HMIL's capacity expansion plans
- Vulnerable to foreign exchange rate fluctuations as significant proportion (nearly 75-80%) of raw material requirement of the company is imported
- Moderate capital expenditure planned by the company over the medium term for setting up a new manufacturing unit; however, given the healthy cash balances and internal accruals of the company, reliance on external funding sources should remain minimal

Description of key rating drivers highlighted above:

KIML is a single-product single-customer company, deriving its entire revenues from the supply of wiring harness assemblies to Hyundai Motor India Limited. The company was setup in 1997 as a 50:50 JV between Motherson Sumi Systems Limited, India and Kyungshin Industrial Corporation Limited, South Korea, both of which operate in the same line of business as KIML. KIC has strong presence for wiring harness systems with Hyundai Motor Corporation globally and acts as a technical collaborator for KIML, for which it receives royalty fees from the company. MSSL also has an established presence in the domestic wiring harness industry, supplying to major domestic OEMs. Although the JV agreement does not obviate KIML from venturing into other OEMs, it is restricted from competing with MSSL in OEMs where the latter has presence².

KIML supplies to HMIL for all the models that the OEM manufactures domestically. Over the past two years, HMIL has gradually shifted its sales mix away from lower-end models like Santro, i10 and i20 towards higher-end versions like Grand i10 and Elite i20. KIML has also benefited from this sales mix shift, and has reported improvement in its revenues as well as profitability since FY2014, despite sales volumes remaining largely stagnant. KIML's sales volumes remain linked to that of HMIL, and with the OEM operating at near-total utilization at its existing manufacturing facilities, KIML's sales volume growth has remained muted over the past few years.

The company enjoys an extremely robust liquidity and financial risk profile and has been maintaining sizeable cash balances on its books over the years. With healthy cash generated from its operations itself, the company's requirement for external financing support has remained minimal, and it has remained almost debt-free over recent years. Going forward also, although the company has plans for some capital expenditure over the near term, its reliance on external debt funding is likely to remain low in light of its strong cash balances and healthy internal accruals; accordingly, it is expected to continue to maintain a strong capital structure and comfortable coverage indicators.

² MSSL supplies to wiring harness system assemblies to OEMs like Maruti Suzuki India Limited, Tata Motors Limited, Toyota Kirloskar Motors Limited, M&M, Ford India, Renault Nissan, Honda Motorcycles and Hero MotoCorp among others.

Analytical approach: For arriving at the ratings, ICRA has primarily taken into account the operational profile and financials of the company on a standalone basis.

Links to applicable Criteria

- Corporate Credit Rating –A Note on Methodology
- Rating Methodology for Auto Component Manufacturers

About the Company:

KIML was incorporated in October, 1997 in Chennai, India as a 50:50 joint venture between Kyungshin Industrial Corporation, Korea (KIC) and Motherson Sumi Systems Limited (MSSL) with the objective of meeting Hyundai Motor India Limited's (HMIL) wiring harness requirements. KIC is a leading manufacturer of integrated wiring harness in Korea and the largest supplier of wiring harness to Hyundai Motor Company (HMC) worldwide. KIML has three factories in Chennai near the HMIL plant with a capacity for meeting the requirements of 0.6 million Hyundai cars per annum.

The company reported an operating income of Rs. 1,097.7 crore and profit after tax of Rs. 105.8 crore in FY2016 as against the operating income of Rs. 961.8 crore and profit after tax of Rs. 109.1 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

| S.No | Name of Instrument | Current Rating (Year T) | | | Chronology of Rating History for the past 3 years | | |
|------|---------------------------------|------------------------------|--------------------------|---------------------|---|--------------------------------|--------------------------------|
| | | Type (long term/ Short term) | Rated amount (Rs. crore) | Month-year & Rating | Month- year & Rating in FY2016 | Month- year & Rating in FY2015 | Month- year & Rating in FY2014 |
| | | | | January 2017 | September 2015 | October 2014 | July 2013 |
| 1 | Long Term Fund Based Facilities | LT | 15.00 | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) |
| 2 | Non Fund Based Facilities | ST | 5.00 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 3 | Proposed Fund Based Facilities | LT | 36.74 | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) |
| 4 | Commercial Paper/ STD Programme | ST | 5.00 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

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
Details of Instrument

| Name of the instrument | Date of issuance | Coupon rate | Maturity Date | Size of the issue | Rating assigned, along with Rating Outlook |
|-------------------------------|-------------------------|--------------------|----------------------|--------------------------|---|
| Cash Credit | NA | NA | NA | 15.00 | [ICRA]AA- (Stable) |
| LC/BG | NA | NA | NA | 5.00 | [ICRA]A1+ |
| Unallocated limits | NA | NA | NA | 36.74 | [ICRA]AA- (Stable) |
| CP/STD^ | NA | NA | NA | 5.00 | [ICRA]A1+ |

Source: Kyungshin Industrial Motherson Private Limited

^Not issued by the company yet

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