

March 20, 2017

## ILJIN Electronics (India) Private Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund Based Limits- Long Term	17.25	Reaffirmed at [ICRA]BB (Stable)
Unallocated Limits- Long/Short Term	5.75	Reaffirmed at [ICRA]BB (Stable)/ [ICRA]A4
<b>Total</b>	<b>23.00</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed its long term rating on the Rs. 17.25 crore<sup>1</sup> fund-based limits of ILJIN Electronics (India) Private Limited (ILJIN)<sup>2</sup> at [ICRA]BB (pronounced ICRA double B). The outlook on the long term rating is 'Stable'. ICRA has also reaffirmed its long/short term rating on the Rs. 5.75 crore unallocated limits of ILJIN at [ICRA]A4 (pronounced ICRA A four).

### Rationale

The reaffirmation of the ratings factors in the robust increase in the operating income in the last few years as a result of increasing orders in the washing machine and refrigerator segment. The growth in the sales has been fuelled by repeat orders from reputed players like LG Electronics India Private Limited (LGEIL), Daesung and IFB Industries Limited. The promoters of the company have nearly two long decade track record of being associated with LGEIL. The rating also takes into account the improvement in capital structure on account of repayment of the long term loans. However the ratings are constrained by significant decline in operating profitability of the company over the years on account of increased overheads and limited bargaining power vis-à-vis its key customers which affects its pricing flexibility, thereby impacting the profitability margins. The ratings also factors in the moderate scale of operations of the company and its high dependence on a single customer LGEIL which accounted for ~74% of the total revenues in FY2016. Nonetheless, the positive track record of the company as a major supplier of printed circuit boards (PCB) to LGEIL offsets this risk to a certain extent. The majority of the sales of ILJIN are to the electronics industry which is seasonal in nature with a lot of competition amongst the leading players thereby having a potential to impact the revenue and profitability of the company.

Going forward the ability of the company to generate adequate accruals to meet repayment obligations and significant upswing in the sales and profitability will remain the key rating sensitivities.

### Key rating drivers

#### Credit Strengths

- Experienced promoters with a long track record in the assembling of printed circuit boards
- Long relationships with reputed companies like LG Electronics India Private Limited (LGEIL)
- Revenue visibility and order book remains healthy owing to increasing orders from IFB and Daesung in the past two years
- Healthy growth outlook for the consumer durables industry in India, driven by a widening middle class, provides strong revenue growth potential
- Improvement in the capital structure owing to the repayment of the term loans in FY2016 and FY2017

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

### **Credit Weaknesses**

- High concentration risk as significant share of the company's revenues are contributed by LG (~74% in FY 2016)
- Highly competitive nature of industry can impact profitability of the company; this risk is further accentuated by company's relatively modest scale of operations
- Limited bargaining power and pricing flexibility vis-à-vis customers (LG) and raw material suppliers resulting in falling operating and net margins
- Seasonal demand of end-products (PCBs manufactured by ILJIN are primarily used in air conditioners) can lead to variability in the turnover and cash flows

### **Description of key rating drivers highlighted above:**

The long association of the Korean promoters of ILJIN with LGEIL as its major supplier for fulfilling the requirements of PCBs for nearly two decades has led to healthy sales growth in the past. This has also led to high client concentration risk as LGEIL has contributed to around 70-80% of the total revenues in the past. The company has acquired some new customers like IFB Industries Limited since FY2015 and is also catering to automobile industries through Daesung; these have led to some diversification in the customer and industry base. The company is currently catering to consumer durables in the electronics industry which has a positive demand outlook driven by increase in discretionary income and credit availability. The stringent control of LGEIL on procurement of raw material along with fixing of pricing of finished goods which leads to a fixed contribution margin leaves a small scope for allowing the company to bargain for desired profitability levels. However, if there is any major increase in price levels during any quarter, its customers compensates the major deviation in the same order thereby limiting too much variation in the profitability. Furthermore, most of ILJIN's customers have stringent induction process for including a new supplier which acts as an entry barrier. Also, most of the customers of the group are highly reputed and established players in various industries, who prefer quality, efficiency of suppliers to produce PCBs over small price differences. To avoid this situation mostly the customers stick to their approved suppliers. The company had high debt repayments which have led to low debt service coverage ratio of less than one in the past. The repayments of the term loans have led to improvement in the capital structure over the years. Any new capital expansion plan if funded through debt may have impact on the capital structure and coverage ratios of the firm.

### **Analytical approach:**

#### **Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

### **About the Company:**

ILJIN was incorporated in 2001 and the operations of the company are managed by Mr. H.C. Sim and Mr. S.Y. Cha. ILJIN is engaged in the assembling of customized single sided and double sided PCBs for white goods like washing machines, air conditioners, microwave ovens, automobiles, inverters etc. The assembling unit of the company is located in the industrial belt of Greater Noida (Uttar Pradesh) and Pune (Maharashtra).

ILJIN earned a net profit of Rs. 0.72 crore on an operating income of Rs. 154.77 crore in FY2016 as compared to a net profit of Rs. 0.45 crore on an operating income of Rs. 131.95 crore in the previous year. In 9MFY2017 ILJIN reported an operating income of Rs. 117.77 crore on which it earned a net profit of Rs. 1.34 crore.

**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			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				<b>March 2017</b>	<b>March 2016</b>	<b>February 2015</b>	<b>February 2014</b>
1	Cash Credit	Long Term	9.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Overdraft	Long Term	4.75	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	Working Capital Demand Loan	Long Term	3.50	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
4	Bank Guarantee	Long/Short Term	5.75	[ICRA]BB (Stable)/ [ICRA/A4	[ICRA]BB (Stable)/ [ICRA/A4	[ICRA]BB (Stable)/ [ICRA/A4	[ICRA]BB (Stable)/ [ICRA/A4

**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](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	9.00	[ICRA]BB (Stable)
Over Draft	-	-	-	4.75	[ICRA]BB (Stable)
Working Capital Demand Loan	-	-	-	3.50	[ICRA]BB (Stable)
Unallocated Limits	-	-	-	5.75	[ICRA]BB (Stable)/[ICRA]A4

Source: Company's (ILJIN) info

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About ICRA Limited:

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