

Myoung Shin India Automotive Private Limited

November 27, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -term Loan	130.10	[ICRA]BBB- (Stable); Assigned
Long-term fund based	3.48	[ICRA]BBB- (Stable); Assigned
Fund based sublimit facilities	(65.00)	[ICRA]BBB- (Stable); Assigned
Non-fund based sublimit facilities	(27.00)	[ICRA]A3; Assigned
Unallocated Limits	16.42	[ICRA]BBB- (Stable); Assigned
Total	150.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 130.10-crore¹ term loan facilities, to the Rs. 3.48-crore fund-based facilities, to the Rs. 65.00-crore fund based sublimit facilities and to the Rs. 16.42-crore unallocated facilities of Myoung Shin India Automotive Private Limited (MSIAPL or the company)². ICRA has also assigned a short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 27.00-crore non-fund based sublimit facilities of the company. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in MSIAPL's sole supplier status with Hyundai Motor India Limited (HMIL) for manufacturing of specific body parts such as hood, front and rear doors etc., for various models and strong operational and financial support from the parent, MS Autotech Co., Ltd. (MSACL). The assigned ratings also draw support from the comfortable debt protection metrics for the company with gearing of 0.3 times and debt/ operating profit of 2.7 times as on March 31, 2018 and interest cover of 4.0 times for FY2018.

However, the ratings are constrained by the company's low operating margins, net losses in the last few years and high customer concentration risks. The ratings also consider volatility in profit margins given its limited pricing power, susceptibility of earnings to the vagaries in HMIL's performance and vulnerability of margins to the fluctuations in foreign currency rates in the absence of formal hedging mechanisms. The ratings are also capped by the significant debt funded capex investments by the company to the tune of Rs. 145.0 crore in the current fiscal and an ongoing labour strike at the company's location where the longevity of the strike with potential impact on production volumes remains to be seen.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes Myoung Shin India Automotive Private Limited will maintain comfortable debt protection metrics. The outlook may be revised to Positive if substantial growth in profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if lower cash accrual is lower than the estimated levels or weakening of debt protection metrics.

Key rating drivers

Credit strengths

Sole supplier status with the second largest car maker in India – MSIAPL is the sole supplier for specific body parts (such as hood, rear floor, front and rear doors to name a few) for various models of HMIL, the second largest car manufacturer in India. MSIAPL's sole supplier status and long association with HMIL ensures stable order flows, thus providing a healthy revenue visibility over the long term.

Strong technological and financial support from the parent company MS Autotech Co., Ltd. – MSIAPL is subsidiary of MS Autotech Co., Ltd., a Korea based automotive body parts manufacturer for Hyundai Motor Company and KIA Motor Corporation. MSIAPL derives technological support from the parent and sources critical machinery and raw material child parts from MSACL. MSIAPL also derives significant financial support from MSACL through regular equity infusion and enhanced credit terms. MSACL had infused ~Rs. 360-crore equity in MSIAPL in the last five years.

Comfortable debt protection metrics – Aided by regular equity infusion and strong financial support from the parent entity, MSIAPL's capitalisation metrics remain comfortable with a gearing of 0.3 times as on March 31, 2018 while coverage ratios are moderate with total debt/ operating profit of 2.7 times and interest cover at 4.0 times for FY2018 (provisional financials).

Credit challenges

Financial profile characterised by net losses in last few years – MSIAPL's operating margins have been volatile in the last five years due to its limited pricing power, higher employee costs and exposure to the fluctuation in foreign exchange rates in the absence of a firm hedging policy. Low operating margins coupled with high interest costs and depreciation charges resulted in net losses for the company in the last few years (barring FY2017). The losses were higher in FY2018 due to the loss on sale of its subsidiary MS Global India Automotive P Limited to Samvardhana Motherson International Limited. However, various cost cutting measures are being undertaken by the company to improve the profitability levels; results of which are partly evident in H1 FY2019.

High customer concentration risk - The company derives its entire revenues from HMIL (minor portion through tier I suppliers of HMIL), exposing its growth prospects to the performance of the OEM. However, HMIL being the second largest car manufacturer in the Indian market, the risk is mitigated to an extent.

Need from continuous investments - With introduction of new models by HMIL, there is a need for the company to make investments in new machinery and technology. While major portions of the capex requirements have been funded through equity in the past, majority of the capex has been funded through debt in the last two years. Also, the company is having significant debt funded capex investments of Rs. 145.0 crore in the current fiscal which would deteriorate the capital structure of the company.

Ongoing labour strike for wage revisions – Since September 2018, there has been an ongoing labour strike at the company’s location by 140 employees demanding revision in wages. ICRA understands that only ~10% of the workforce are on strike and the same is being supported by contractual labourers as on date; the longevity of the strike with potential impact on production volumes remains to be seen.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

About the company:

Myoungshin India Automotive Private Limited was setup in India in 2006, as a subsidiary of MS Autotech Co Ltd, Korea. MSIAPL is into manufacturing and supply of pressed sheet metal components to Hyundai Motors India Limited (HMIL). MSIAPL has one manufacturing facility located in Sriperumbudur. The company is the sole supplier for specific body parts to HMIL for its models -Santro, EON, i10, Grand i10, i20, Accent, new verna, fluidic verna, elite i20, Creta and next gen Verna.

Key financial indicators

	FY2017 Audited	FY2018 Provisional
Operating Income (Rs. crore)	715.5	772.7
PAT (Rs. crore)	11.0	-69.8
OPBDIT/OI (%)	7.0%	5.2%
RoCE (%)	4.6%	-13.3%
Total Debt/TNW (times)	0.3	0.3
Total Debt/OPBDIT (times)	2.1	2.7
Interest coverage (times)	6.3	4.0

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Nov 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Term Loan 1	Long Term	65.00	65.00	[ICRA]BBB-(Stable)	-	-	-
2 Term Loan 2	Long Term	62.20	62.20	[ICRA]BBB-(Stable)	-	-	-
3 Term Loan 3	Long Term	2.90	2.90	[ICRA]BBB-(Stable)	-	-	-
4 Buyer's Credit	Long Term	3.48	3.48	[ICRA]BBB-(Stable)	-	-	-
5 Buyer's Credit sublimit	Long Term	(65.00)		[ICRA]BBB-(Stable)			
6 Capex Letter of Credit sublimit	Short Term	(27.00)		[ICRA]A3			
7 Unallocated limits	Long Term	16.42		[ICRA]BBB-(Stable)	-	-	-

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: 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 1	Jun 2018	NA	Jan 2025	65.00	[ICRA]BBB- (Stable)
NA	Term Loan 2	Jun 2018	NA	Mar 2022	62.20	[ICRA]BBB- (Stable)
NA	Term Loan 3	Jun 2018	NA	Mar 2022	2.90	[ICRA]BBB- (Stable)
NA	Buyer's Credit				3.48	[ICRA]BBB- (Stable)
NA	Buyer's Credit sublimit				(65.00)	[ICRA]BBB- (Stable)
NA	Capex Letter of Credit sublimit				(27.00)	[ICRA]A3
NA	Unallocated limits				16.42	[ICRA]BBB- (Stable)

Source: Myoung Shin India Automotive Private Limited

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