

August 02, 2019

Myoung Shin India Automotive Private Limited: [ICRA]BBB-(Stable)/[ICRA]A3 reaffirmed; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -term Loan	130.10	190.10	[ICRA]BBB- (Stable); reaffirmed
Long-term fund based	3.48	3.48	[ICRA]BBB- (Stable); reaffirmed
Long-term fund based sublimit facilities	(65.00)	(65.00)	[ICRA]BBB- (Stable); reaffirmed
Short-term non-fund based sublimit facilities	(27.00)	(27.00)	[ICRA]A3; reaffirmed
Long-term unallocated Limits	16.42	16.42	[ICRA]BBB- (Stable); reaffirmed
Total	150.00	210.00	

*Instrument details are provided in Annexure-1

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 support from the parent, MS Autotech Co., Ltd., Korea (MSACL). The assigned ratings also consider the improved operating margins from 5.8% during FY2018 to 13.0% during FY2019 (Provisional) on account of various cost cutting initiatives and price negotiation with the OEM. HMIL had witnessed 3.1% growth in production volumes during Q1 FY2020 when the industry had de-grown by 12.0% owing to strong exports. As a result, geographic diversity via. HMIL's exports buffers impact of volatility in Indian passenger vehicle market.

The ratings are constrained by the financial profile of the company characterised by volatile margins, thin RoCE and increased debt levels owing to the need arising from continuous investments. Although there has been financial support from MS Autotech through regular equity infusion till FY2016 and longer credit terms till FY2019, with improvement in performance of the Indian company, credit support from the parent is expected to moderate. The company also faces high customer concentration risk with majority of revenues being derived from HMIL although the same is expected to reduce over the medium term.

Outlook: Stable

ICRA believes Myoung Shin India Automotive Private Limited will maintain the sole supplier status with the OEM, given its criticality for HMIL. The outlook may be revised to Positive if better working capital management and reduced borrowings, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than the estimated levels. Any significant increase in debt, beyond the anticipated levels, be it on account of capex or increased working capital borrowings would be a key rating sensitivity.

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 healthy revenue visibility over the long term.

Strong technological support from the parent company MS Autotech Co., Ltd. – MSIAPL is subsidiary of MS Autotech Co., Ltd., (MS Autotech) 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, raw material and child parts from MS Autotech. MS Autotech's long standing association with Hyundai Motor Company Korea translates into strong relationship between MSIAPL and HMIL.

Improved margins during FY2019 – The company's margins had improved substantially from 5.8% during FY2018 to 13.0% during FY2019 (Prov.) (includes one-time cost reimbursement from HMIL to the tune of ~Rs. 36 crore) owing to various cost cutting initiatives by the company and price negotiation with OEM. As a result of the price renegotiation MSIAPL's margins are expected to improve from past levels (of FY2018; excluding one-time OEM reimbursement OPM stood at 8.5%) going forward.

Geographic diversity via. HMIL's exports buffers impact of volatility in Indian passenger vehicle market – The Indian passenger vehicle industry had witnessed a decline in sales by 18.4% and production volumes by 12.0% during Q1 FY2020. Nevertheless, Hyundai Motor India Limited has witnessed 0.1% growth in sales (includes both domestic and exports) and 3.1% growth in production volumes aided by strong exports (27.3% growth).

Credit challenges

Financial profile characterised by volatile margins, thin RoCE and increased debt levels owing to capital intensive nature of the business – Low operating margins in the past coupled with high depreciation costs and forex losses led to the company reporting losses till FY2018 (barring FY2017). The losses were higher in FY2018 due to one-time loss on sale of its subsidiary MS Global India Automotive Private Limited to Samvardhana Motherson International Limited. However, with various cost cutting initiatives by the company and price negotiation with OEMs the margins have improved to 13.0% during FY2019 (Prov.). Although, the margins are expected to moderate (from FY2019Prov.) in the upcoming years, they are expected to remain healthy.

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 three years. MSIAPL's RoCE has been thin over the past several years at negative/lower single digits (barring FY2019) owing to low profit margins and significant investments. Further, MSIAPL has capex plans of ~Rs. 90 crore during FY2020 which is likely to be funded through mix of debt and internal accruals (financial funding yet to be crystallised). The company has also extended Rs. 53.2 crore of interest bearing loan to an ailing supplier during FY2019 to supports its supply chain. The company has considerable repayment obligations of Rs. 58.8 crore in FY2021 and Rs. 58.8 crore FY2022 for the availed term loans. While the anticipated accruals would suffice to meet the repayment obligations, any further increase in debt levels beyond expected levels or decline in accruals would be a key rating sensitivity.

Reduced financial support from the parent entity – MSIAPL has derived significant financial support from MS Autotech through regular equity infusion till FY2016 and longer credit terms till FY2019. However, with improvement in performance of the Indian company, credit support from the parent is expected to moderate.

High customer concentration risk; likely to be diversified over the medium term - The company derives its entire revenues from HMIL (minor portion from tier I suppliers of HMIL), exposing its prospects to the performance of the OEM. However, with HMIL being the second largest car manufacturer in the Indian market and MSIAPL's criticality to the OEM, the risk is mitigated to an extent. Also, the management efforts in adding new clientele to diversify the customer base over the medium term would yield results over the medium term only.

Liquidity Position:

MSIAPL's liquidity is moderate with healthy improvement in fund flow from operations during FY2019 Prov. Its average working capital utilization on sanctioned cash credit/ WCDL facilities was negligible for the 12-month period ended June 2019. Going forward, the company has repayment obligations of Rs. 26.8 crore in FY2020, Rs. 58.8 crore in FY2021 and Rs. 58.8 crore FY2022 for the availed term loans. MSIAPL has planned capex of ~Rs. 90 crore during FY2020 which would be funded through a mix of debt and internal accruals. The company has considerable repayment obligations and capex plans over the next three years which will have to be supported from accruals and incremental borrowings. Any deterioration in the profitability or increase in debt levels beyond expected levels would be a key rating sensitivity.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company.

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, i10, Grand i10, i20, Accent, fluidic verna, elite i20, Creta and next gen Verna.

Key financial indicators

	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	621.7	740.1
PAT (Rs. crore)	-74.7	37.0
OPBDIT/OI (%)	5.8%	13.0%
RoCE (%)	-12.0%	5.0%
Total Debt/TNW (times)	0.5	1.1
Total Debt/OPBDIT (times)	3.0	2.6
Interest coverage (times)	3.8	7.5

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 (FY2020)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount O/s (Rs. crore) *	August 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term Loan 1	Long Term	65.00	65.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
2	Term Loan 2	Long Term	62.20	49.26	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
3	Term Loan 3	Long Term	2.90	2.17	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
4	Term Loan 4	Long Term	60.00	60.00	[ICRA]BBB-(Stable)	-	-
5	Buyer's Credit	Long Term	3.48	3.13	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
6	Buyer's Credit sublimit	Long Term	(65.00)		[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
7	Capex Letter of Credit sublimit	Short Term	(27.00)		[ICRA]A3	[ICRA]A3	
8	Unallocated limits	Long Term	16.42		[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-

* Amount outstanding as on March 31, 2019

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	Term Loan 4	Aug 2018	NA	Aug 2023	60.00	[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

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Pavethra Ponniah

+91 44 4596 4314

pavethrap@icraindia.com

Prem Tej Reddy

+91 44 4297 4323

t.reddy@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents