April 26, 2024

Flash Viven Machining Technologies Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loans	53.67	[ICRA]A (Stable); assigned
Total	**53.67**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the rating, ICRA has taken a consolidated view of Flash Electronics (India) Private Limited (FEPL; rated [ICRA]A (Stable)/[ICRA]A2+) and its wholly-owned subsidiary, Flash Viven Machining Technologies Private Limited (FVMT), given their common management, strong operational and financial linkages (including extension of corporate guarantee by FEPL to FVMT) and fungibility of cash flows between the two entities. Together these entities are referred to as the Flash Group/ the Group.

The rating assigned to FVMT factors in Flash Group's established business position and the extensive experience of its promoters in the domestic automotive components industry. Additionally, its established relationship with Bajaj Auto Limited (BAL), one of the leading two-wheeler (2W) original equipment manufacturers (OEMs) in India, provides further comfort. Over the years, the Group has maintained a strong market position supported by its sizeable manufacturing set-up, strong technical capabilities and product development expertise, strengthened by its status as an anchor supplier to BAL.

The assigned ratings also take into consideration the Group's diversified presence across different product categories including e-mobility/ electric vehicle (EV) components. Also, the ratings consider the company's strong and able management and its healthy share of business with its principal customers. The Group's product portfolio is characterised by the presence of both traditional products, such as regulators, gear assemblies, shafts and sensors; and advanced product categories, such as electronics, magnetos, LED lightings, e-mobility components and others. This mitigates the potential risk owing to changes in the powertrain mix, especially in the 2W segment. Leveraging the same, the company has established relationships with a reputed client base of domestic and international OEMs and tier-1 suppliers, in addition to BAL. Over the years, FEPL has diversified its operations across five major segments, electronics and electricals (~47% share of revenues in FY2023), EV components (5%), metallics (23%), engine components (17%) and sprockets (8%).

FMVT reported net losses in its initial years of operations till FY2022, primarily driven by suboptimal capacity utilisation due to adverse impact of the pandemic and shortage of semi-conductors on the automotive industry. However, there has been considerable improvement in the company's performance from FY2023, as marked by healthy revenue growth and improvement in operating margins, leading to increased accrual generation. This has been aided by steady ramp up in capacity utilisation with the addition of new customers (BAL, BRP Rotax Gmbh, Yamaha Motor India Pvt. Ltd., etc) and increasing contribution from exports.

The ratings also draw strength from the Group's improving financial risk profile, as reflected by steady revenue growth and improvement in profitability, resulting in healthy accrual generation. Coupled with some reduction in debt levels, this has supported the improvement in the Group's credit metrics in recent years. In the near term, the Group's growth prospects will be driven by scale-up in its EV business and exports, wherein the company has secured new businesses from new and existing customers. ICRA expects the Group's capex plans to be modest (i.e., ~Rs. 30 crore p.a.) in the near term, as it will continue to prioritise leveraging its existing asset base, especially in the metallics and EV segments.

However, to strengthen its presence in the EV components space, Flash Group is likely to consider an investment to manufacture four-wheeler EV components over the medium term. ICRA expects this investment to be financed through equity funds, as the Group intends to raise equity capital. Its plans to raise equity capital, along with the potential conversion of compulsory convertible debentures (CCDs) into equity, will augment the capital structure and strengthen credit profile of the Group, which remains monitorable.

The ratings are, however, constrained by the vulnerability of the Group's profitability to inherent fluctuations in prices of key raw materials, as well as competitive pressures in the auto component industry. Nevertheless, the risk is mitigated to an extent as the Group enjoys raw material pass-through clauses with customers, although with a lag of a quarter. In addition, the Group benefits from the first-mover advantage and holds single-source supplier status for most of its products. Flash Group is also exposed to high customer concentration risk, with its top customer accounting for a significant share of its total revenue.

However, the healthy share of business, key supplier status and BAL's leading market position in the industry provide some comfort. While it scores favourably on product diversity, its relatively higher exposure to the 2W segment and to its largest customer impact the ratings at present. ICRA notes that the Group is making considerable efforts to diversify its business profile by gaining a share of business from other customers, especially in international markets.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Flash Group will continue to benefit from its established business position, long-standing relation with BAL and its broad-based growth across its business segments.

Key rating drivers and their description

Credit strengths

Established track record and extensive experience of promoters in the automotive components industry – Incorporated in 1989, Flash Group has established itself as a prominent manufacturer of electronic and electrical automotive components, especially for the 2W industry. This has been supported by its established relationships with BAL and other key OEMs, diverse product profile and sizeable manufacturing set-up. The company is promoted by Mr. Sanjeev Vasdev (Founder and Managing Director), who has extensive experience of over three decades in the industry.

Long-standing relations with reputed client base – Over the years, the Group has developed a wide customer base of leading domestic and global OEMs, namely BAL, Yamaha Motor India Pvt. Ltd., Mahindra and Mahindra Ltd., Kawasaki Motors India Pvt. Ltd., Maruti Suzuki India Ltd., BMW, Triumph, BRP Rotax Gmbh and others; and tier-1 suppliers such as Endurance Technologies Ltd. and Makino Auto Industries Pvt. Ltd., among others. The Group enjoys a healthy share of business with its principal customer, aided by its technological capabilities and wide product profile, especially for EV components. Given the product development and order booking with its customers, Flash Group's EV share is expected to increase to 13% in FY2024.

Diversified product profile aided by strong product development expertise – Flash Group operates through five major business segments—electrical and electronics (47% of revenues in FY2023), EV (5%), metallics (23%), sprockets (8%) and engine components (17%). The Group's diverse product profile in each segment is supported by strong technical capabilities, various technical collaborations, and continued investment in designing infrastructure and R&D over the years. The same has enabled the Group to develop a product profile of over 150 components, including regulators, capacitors, magnetos, alternators, ignition coils, sensors, thermostats, throttle bodies, starter motors and e-mobility products, among others. The Group also has a hi-tech design technology centre in Poland, which is used for product development. Supported by the same, the Group plans to launch its newer products for 2Ws, three-wheelers (3Ws) and passenger vehicles (PVs) in the near term.

Steady revenue growth in recent years; momentum likely to sustain – Flash Group has reported steady revenue growth, with a 3-year CAGR of 14% ending FY2023 at a consolidated level. This growth has been aided by the pickup of volumes in the 2W industry after the pandemic, the expansion of its metallics and EV verticals, and its growing international presence. Moreover, it has achieved revenues of Rs. 987 crore in 9M FY2024 (as per provisional financials), supported by stable demand in the domestic market and new business in exports. Coupled with steady improvement in operating margins, this has led to healthy cash accrual generation and adequate liquidity position, supporting the enhancement of the Group's credit metrics. The same is demonstrated by the total debt/OPBITDA of 2.9x in FY2023 (6.2x in FY2021), interest coverage of 2.8x in FY2023 (1.6x in FY2021) and TOL/TNW of 3.4x in FY2023 (4.5x in FY2021). Healthy earnings, coupled with no likely increase in debt levels and fund-raising plans of the Group, are expected to strengthen its financial risk profile over the medium term.

Credit challenges

Relatively high customer concentration risk – Flash Group encounters a relatively higher customer concentration risk, with its top customer, BAL, driving a significant part of its revenue. The company's business performance is, thus, vulnerable to the performance and market share of its key client. However, ICRA notes that the same has declined from ~75-80% in the past due to the expansion of FEPL's customer base. Moreover, healthy share of business and key supplier status with BAL, along with BAL's leading market position in the 2W industry, also provide some comfort. While BAL is expected to significantly drive the company's revenue, the addition of new products for the PV segment and expansion of its EV vertical through planned product launches are expected to widen the customer base and support the company's revenue growth over the medium term.

Exposure to raw material price volatility and competitive pressures – The Group's operating margins are susceptible to fluctuations in the price of key raw materials such as steel, aluminium, copper and others. However, the same is passed on with a minor lag, largely insulating its profitability. Moreover, due to the competitive nature of business, the company encounters pressures from other global and domestic suppliers, in terms of pricing flexibility. However, it benefits to an extent from its established operational track record and established relationships with its key customers.

Cyclicality inherent in the automotive sector – Flash Group derives most of its revenue from the automotive sector, mainly the 2W segment (78% of revenues in FY2023), thereby exposing it to the inherent cyclicality and/or demand slowdowns in the auto industry. However, given that the company enjoys an established relationship with BAL and has demonstrated the ability to sustain its steady revenue growth in recent years, with its product profile also catering to alternative vehicle components (EV), the Flash Group is likely to report healthy revenue growth over the medium term.

Liquidity position: Adequate

Flash Group's liquidity position is adequate, supported by steady internal cash accrual generation, free cash and bank balances of ~Rs. 70-80 crore and undrawn working capital bank lines of ~Rs. 50 crore (as on March 31, 2024). Flash Group has debt repayment obligations of Rs. 80.1 crore in FY2025 and Rs. 73.9 crore in FY2026, along with annual capex plans of ~Rs. 30 crore per annum. The same is expected to be comfortably serviced through internal accruals and available bank lines.

Rating sensitivities

Positive factors – ICRA could upgrade FVMT's ratings if the Flash Group reports healthy revenue growth and accrual generation, and/or a considerable increase in net worth through fundraising activity, resulting in the strengthening of its debt protection metrics and liquidity profile. Specific credit metrics that may upgrade the ratings include a Total Outside Liabilities/ Tangible Net-Worth (TOL/TNW) of less than 1.5 times on a sustained basis.

Negative factors – Pressure on FVMT's ratings could arise in case of considerable decline in revenue and accrual generation, significant debt-funded capex and/or deterioration in working capital cycle, resulting in the weakening of the Group's credit metrics and liquidity position. Specific credit metrics that may lead to ratings downgrade include total debt/OPBDITA of more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of FEPL. As on March 31, 2023, FEPL had two subsidiaries, which are enlisted in Annexure II.

About the company

Incorporated in 2013, FVMT is engaged in manufacturing gear assemblies, gear balancers, gear idlers and other machined components for 2Ws, 3Ws and PVs. The company operates from its manufacturing unit in Pune, Maharashtra; and is a 100% subsidiary of FEPL.

Its parent, FEPL, incorporated in 1989, manufactures electronic and electrical auto components, gear assemblies, sprockets, engine and e-mobility components for 2Ws, 3Ws, PVs, EV auto OEMs and tier-1 suppliers. On a consolidated basis, FEPL has seven manufacturing plants across India, Germany and Hungary. The Group has been promoted by Mr. Sanjeev Vasdev and family, who currently hold a 90.79% equity stake in FEPL while the balance 9.22% is held by DMI Finance Private Limited (DMI). DMI had also infused funds (Rs. 75 crore) in the form of CCDs into FEPL in FY2019.

Key financial indicators (audited)

FEPL – Consolidated	FY2022	FY2023
Operating income	1,013.9	1,210.7
PAT	11.0	45.3
OPBDIT/OI	10.7%	12.3%
PAT/OI	1.1%	3.7%
Total outside liabilities/Tangible net worth (times)	4.1	3.4
Total debt/OPBDIT (times)	4.4	2.9
Interest coverage (times)	2.2	2.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations/adjustments; 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

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 26, 2024	-	-	-
1	**Fund-based – Term Loans**	Long-term	53.67	53.67	**[ICRA]A (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term Loans	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	Fund-based – Term Loans	FY2019	10.3-10.7%	FY2029	53.67	[ICRA]A (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	FEPL's Ownership	Consolidation Approach
Flash Viven Machining Technologies Private Limited	100.00%	Full consolidation
Bing Power Systems Gmbh	100.00%	Full consolidation

Source: Company

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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.

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