

## Igarashi Motors India Ltd.

₹847

*Actuation in Action...!!!***Buy**

Jan 19, 2018

**Company Background**

Company was incorporated as CG Igarashi Motors Limited on January 10, 1992 as a Joint Venture between Crompton Greaves Ltd, India, Igarashi Electric works Ltd, Japan and International Components Corporation, USA. It manufactures permanent magnet micrometers, has technical collaborations with IEW and ICC for technology transfer and sourcing of all critical plant and equipment. CIM also has a marketing arrangement with ICC under which ICC will purchase five mn micrometers pa from CIM. CIM plans to venture into high-volume subcontracting for end-user multinational companies. Comfort Actuator Motors used in Specific usage order of less than 600 mn motors per year and continue to grow. Company is working with strategic customers to creat manufacturing platforms for customers designs in the Comfort Actuator Motor space. Strict government regulations for emissions have resulted in increasing demand of actuators in engine management systems. It has key global customers namely; Bosch, Continental, cooper, Dellorto, Delphi, Magnet Marell, Pierburg, Valeo and Visteon. Company is examining the possibility of spinning off its non motor business into a focused JV with Igarshi Electric Works, Japan.

**Key Highlights**

- ➔ For 2016-17 net sales rose by 14.1% to ₹ 5078.90 mn, operating profit moved by 11.3% to ₹ 1364.20 mn and finally net profit also jumped by 15.9% to ₹ 737.70 mn on Year on Year basis.
- ➔ During the year, company has taken up many projects grouped under NIL SPILL to keep up with the stringent customer quality specifications.
- ➔ For existing programs also Nil Spill is ensured on all inputs like raw materials, & resources so that quality products will deliver to customer.
- ➔ Since 2 years, company added capacity of 8 mn motors per year by a combination of setting up new lines & increase capacity of 2 running lines.
- ➔ Brushless DC Motors and Nano-technology are possible substitutes for the Brushed DC Motor in the future. The brushless motors is presently costing 3-5 times higher than the traditional motors with brushes. It is launching pilot programs in this space.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	4,035.6	4,619.2	5,254.3
Rev. growth (%)	5.88	14.46	13.75
EBITDA (INR mn)	869.2	975.3	1,225.8
Net profit (INR mn)	489.5	636.4	737.7
Shares outstanding (mn)	30.6	30.6	30.6
EPS (INR)	15.1	19.7	24.1
EPS growth (%)	14.74	30.26	22.52
P/E (x)	25.68	27.95	33.28
RONW (%)	20.82	23.34	22.19
ROCE (%)	27.18	32.03	31.30

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**Info Codes**

Reuters	: IGAM.BO
Bloomberg	: IGM IN
NSE	: IGARASHI
BSE	: 517380

**Market Data**

52 Wk Range (₹)	: 688/1125
Shares in Issue (mn)	: 30.6
Market. Cap ( bn)	: 25.92
BSE 2 Wk Avg Vol	: 3071

**Share Holding Pattern (%)**

Promoters Holding	: 75.00
Public & Others	: 10.00
Corporate Holding	: 03.00
Foreign Institution	: 06.00
Institutions	: 06.00

**Investment Theme**

Volume of Light Commercial Vehicles in 2016 was at 93.2 mn, this volume is expected to be between 100-110 mn by 2020. The Asia Pacific region holds the largest share in terms of vehicles sold 45% followed by North America 23%. Increasing investment trends are visible in the electric vehicle space which are driving the industry players to believe that by 2025 the share of All-electric vehicles could be between 8-10% of the total vehicle sales and the Hybrid Electric Vehicles could be between 10-15% of the total vehicle sales. During the last 2 years, added capacity of 8 mn units per annum by a combination of setting up new lines and augmenting capacity of 2 old lines. Apart from India, it has locations in Japan, Korea, Hong Kong, China, Germany and Chicago. Company considering Scheme of arrangment with Agile Electric Sub Assembly Pvt Ltd and issue of bonus equity shares.

**Custom-made Products...!!!**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	3,850.8	4,449.8	15.6	5,078.9	14.1
Other Income	171.4	143.0	(16.6)	146.7	2.6
Change in Stocks	9.5	(3.5)	(136.8)	12.4	(454.3)
Raw Material Con.	2,371.8	2,651.4	11.8	3,014.5	13.7
Employee Exp.	276.8	318.5	15.1	390.7	22.7
Indirect Taxes	13.4	26.4	97.0	28.7	8.7
Other Exp.	394.4	367.2	(6.9)	439.9	19.8
Operating Exp.	3,056.4	3,363.5	10.0	3,873.8	15.2
Operating Profit	975.3	1,225.8	25.7	1,364.2	11.3
Total Interest	70.8	62.6	(11.6)	30.8	(50.8)
Gross Profit	904.5	1,163.2	28.6	1,333.4	14.6
Net Dep.	188.0	189.6	0.9	220.3	16.2
Total Taxation	227.0	337.2	48.5	375.4	11.3
Net Profit/Loss	489.5	636.4	30.0	737.7	15.9

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16	Mar 17
<b>SOURCES OF FUNDS</b>	<b>2,707.5</b>	<b>3,084.6</b>	<b>3,385.5</b>	<b>3,922.6</b>
Equity Share capital	304.5	306.1	306.1	306.1
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	1,888.2	2,203.4	2,638.1	3,397.4
Secured Loans	477.4	549.3	428.5	219.1
Unsecured Loans	37.4	25.8	12.8	0.0
<b>USES OF FUNDS</b>	<b>2,707.5</b>	<b>3,084.6</b>	<b>3,385.5</b>	<b>3,922.6</b>
Gross Block	2,072.8	2,232.1	2,562.8	2,981.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	816.0	1,021.5	1,184.9	1,402.2
Net Block	1,256.8	1,210.6	1,377.9	1,579.4
Capital Work in Progress	11.4	12.0	117.3	25.9
Investments	211.9	261.3	337.0	1,750.1
Current Assets	2,082.1	2,886.4	2,859.3	1,981.4
Less : Current Liabilities	787.4	1,230.1	1,234.6	1,374.2
Total Net Current Assets	1,294.7	1,656.3	1,624.7	607.2
Misc. Expenses not writtenoff	(67.3)	(55.6)	(71.4)	(40.0)
<b>NOTE</b>				
Book Value of Unquoted Investments	0.0	0.0	0.0	0.0
Market Value of Quoted Investments	48.1	8.3	61.2	53.8
Contingent Liabilities	50.9	86.9	18.0	7.8
Dividend (%)	30.0	44.4	55.0	0.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Dec 16	Mar 17	Jun 17	Sep 17
Net Sales	1,243.4	1,284.1	1,308.1	1,115.5
Cost Of Sales	934.7	996.8	1,022.5	844.2
Operating Profit	308.7	287.3	285.6	271.3
Other Income	39.0	45.2	44.6	55.8
Adjusted PBDIT	347.7	332.5	330.2	327.1
Financial Expenses	7.6	(2.3)	3.2	4.1
Depreciation	66.4	66.7	58.5	58.9
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	273.7	268.1	268.5	264.1
Tax Charges	96.4	77.5	88.6	100.2
Reported Profit	177.3	190.6	179.9	163.9
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	177.3	190.6	179.9	163.9

**52 Week Index Relative Percentage Appreciation**

**Igarashi Motors vs SENSEX**
**Risks Associated**

- ➔ Changes in commodity prices like; steel, copper and plastic cause to higher raw material cost. If raw material cost is higher that impact the product. But company passing to customers.
- ➔ Company is being an Exporter, will have an impact due to foreign exchange fluctuation. Company is importing most of the raw materials.
- ➔ Company being exporter of motors to locations across the World, it is continuously exposed to Supply chain risks such as shipment delivery due to usage of sea freight for most of the deliveries.
- ➔ For Q2 net sales were declined by 14.72% to ₹ 1,115.5 mn, operating profit was dip by 5.01% to ₹ 271.30 mn, financial charges were jumped by 28.13% to ₹ 4.10 mn & finally net profit decreased by 8.89% to ₹ 1,163.9 mn on QoQ basis.

**Scope of Growth**

- ➔ Igarashi will supply 3 components to the U.S based maker Telsa namely; Motors for Tesla X's falcon doors, Door lever retractors and Motors for steering tilt and column adjustment.
- ➔ Due to increasing investments in Hybrid and Electric Vehicle spaces, demand for Electric Actuators is expected to rise.
- ➔ Company has taken on lease 3 new plots inside MEPZ-SEZ, Chennai for installing new manufacturing lines & logistics with total new plot area of 1,11,600 sq ft. Now the overall plot area has increased to 3,35,236 sq ft, enabling to add a capacity of 20% every year.
- ➔ During the year, company has taken many projects grouped under NIL SPILL to keep up with customer quality specifications.

## Igarashi Motors

### In a Nutshell

Company's manufacturing trend has shifting from manual to semi-automatic to fully automation. Improved technology machines and tools are driving capacities and technologies in Tier-4 parts manufacturing facilities, it will increase the capacities of presses/moulding machines by more than 75%. Since 2 years, company increased capacity of 8 mn units per year. Company has taken on lease 3 New Plots inside MEPZ-SEZ, Chennai for installing new manufacturing lines and logistics with total new plot area of 1,11,600 sq ft. Now the overall plot area has increased to 3,35,236 sq ft. During the year, company has taken up multiple projects grouped under NIL SPILL to keep up with the stringent customer quality specifications. Motors has growth 15% in FY17 compared to the previous years due to the new programs/new market launches. Company is in close discussions with customers for higher volume growth over next 3 years than what was experienced over the last three years. Igarashi's joint venture with Bosch will get into new platforms. Bosch is one of the companies that is strongly focused on automation. It will be supplying 3 products to Tesla, namely; Motors for Tesla X's falcon doors, Door lever retractors and Motors for steering tilt and column adjustment. Igarashi Motors India Ltd is consider and approve the Draft Scheme of Arrangement which facilitates the amalgamation of Agile Electric Sub Assembly Private Limited. The Board also considering issue of bonus equity shares only to public shareholders of the company in order to protect the interest of the public shareholders and to ensure compliance of minimum public shareholding post the merger.

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### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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