

Krishna Maruti Limited

November 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	30.00	15.00	[ICRA]AA- reaffirmed; outlook revised from 'stable' to 'positive'
Long-term/Short-term – Fund based/Non-fund based**	90.00	90.00	[ICRA]AA-/ [ICRA]A1+ reaffirmed; outlook revised from 'stable' to 'positive'
Total	120.00	105.00	

*Instrument details are provided in Annexure-1

**Fund-based and Non-fund-based limits are interchangeable

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)¹ and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 105.00-crore² (reduced from Rs. 120.0 crore) bank facilities of Krishna Maruti Limited (KML). The outlook on the long-term rating has been revised from Stable to Positive.

Rationale

The revision in rating outlook factors in the strengthening of the credit profile of KML, driven by a continuation of healthy supplies of seat sets and door trims to Maruti Suzuki India Limited (MSIL) and improvement in the earnings profile. Even as KML recorded a healthier than expected revenue growth in FY2018 (30%), the company gained business for supplies to various new model launches of MSIL, which provide a healthy revenue visibility over the medium term.

The ratings continue to factor in favourably the stable operational profile of KML, with the company continuing to enjoy a strong share of business with MSIL. The ratings also take into account the ownership of KML with nearly 45% stake held by MSIL and Suzuki Motor Corporation (SMC), Japan, along with board representation. The availability of technical assistance from Snic Corporation, Japan, has aided the company's product development efforts, and thus, new business awards.

KML continues to maintain a strong financial risk profile, characterised by conservative capital structure and robust coverage indicators, along with healthy liquidity profile as evident from available liquid investments of Rs. 123.7 crore as on March 31, 2018. While the company is expected to incur moderate capex over the medium term, the same would be funded through internal accruals and available liquid investments, helping to maintain a healthy financial risk profile.

KML continues to remain exposed to significant segment and client concentration risks, as more than 90% of the revenues emanate from MSIL. Additionally, MSIL being one of the shareholder, the scope of customer diversification in the passenger vehicle (PV) segment remains limited. The risk, however, is mitigated to an extent by strong share of business enjoyed by KML in supplies to MSIL, and the market leadership position of the latter in the Indian PV industry. Even as the company has commenced supplies for seat sets for commercial vehicles (CVs) in the current fiscal, the contribution of the same to the overall revenues is likely to remain at marginal levels over the medium term. ICRA also

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² 100 lakh = 1 crore = 10 million

notes the fact that while KML had extended funding support to its group companies in the past, there has been a reduction in outstanding loans and advances to group companies over the past few years and the same are not likely to increase going forward.

Outlook: Positive

The positive outlook on the long-term rating reflects ICRA's belief that the company would maintain its strong presence with MSIL for seat sets with the cash accruals expected to help in further strengthening its financial risk profile. The rating may be revised upward if the company is able to maintain its higher than industry volume growth as well as higher profitability levels, resulting in further strengthening of financial and liquidity profile. The outlook may be revised to Stable if the company witnesses a weakening in profitability levels, given the continued rising in commodity prices.

Key rating drivers

Credit strengths

Established relationship and healthy share of business for seat sets and door trims for MSIL; favourable ownership pattern further strengthens revenue visibility – KML is a leading auto component manufacturer servicing MSIL with seat sets and door trims. Benefitting from the company's technical capabilities and its established relationships, the company has been able to maintain healthy share of business with MSIL for supplies for both seat sets and door trims over the years. The ownership pattern of KML consists of SMC and MSIL, who have a combined stake of nearly 45%. The continuation of ongoing business, coupled with business gained for upcoming product launches, is likely to help the company in reporting healthy revenue growth in the near to medium term.

Technical collaboration with Snic Corporation (Japan) aids in product development capabilities – KML has a technical collaboration agreement with Snic Corporation (Japan), a supplier of seat sets to SMC internationally. The technical collaboration agreements help KML in gaining the required know how and helps mitigate the risk of technical obsolescence. Additionally, the technological support aids KML in new product development, which is likely to help the company maintain its strong share of business with MSIL.

Healthy financial risk profile and strong liquidity profile – The company's financial risk profile is characterised by a conservative capital structure, as evident from a gearing of 0.2 time as on March 31, 2018, and strong debt coverage indicators. KML reported a Total Debt/OPBDITDA of 0.4 time, DSCR of 7.8 times and interest coverage of 38.8 times in FY2018. Additionally, it continues to have a strong liquidity profile with available liquid investments and cash balances of Rs. 123.7 crore as on March 31, 2018; the liquidity profile is also supported by financial flexibility in the form of unutilised working capital limits from banks.

Credit challenges

High client concentration risk, with revenues primarily driven by MSIL – Over the years, a majority of the revenues of KML have been driven by MSIL, which leads to client concentration risk for the company. Nevertheless, the favourable ownership pattern, coupled with the leadership position of MSIL in the domestic PV industry, mitigates the risk to an extent.

High segment concentration risk – The company faces high segment concentration risk with nearly all its revenues in FY2018 derived from the PV segment. Since more than 90% of revenues are driven by MSIL, the company's revenues are largely dependent on the PV segment. Though the company had started supplies to select CV manufacturers in the current fiscal, the revenues from the PV segment are likely to dominate in the near term. Even as favourable growth

prospects for the PV industry mitigates the risk to an extent and provides revenue visibility in near to medium term, KML's ability to diversify into the CV segment and reduce its segment concentration risk would remain a key rating sensitivity.

Product concentration risk – The company's product portfolio primarily consists of automotive seat sets and door trims for PVs, besides plastic parts for two-wheelers. While the company derives its revenues from both seat sets and door trims, most of its revenues emanate from seat sets (72% in FY2018), resulting in product concentration risk. The risk is, however, mitigated to an extent on the back of continuous inflow of orders from MSIL. Going forward, while revenues from sale trims are expected to provide diversification benefits, revenues from the sale of seat sets are likely to dominate over the medium term.

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:

KML, incorporated in 1991 as 'Sona Car Seats Limited', is one of the largest suppliers of seat sets and door trims to MSIL. In 1994, following acquisition of 24.3% shareholding of the company by Suzuki Motor Corporation (SMC) and 13.1% by MSIL, the company was renamed as KML. The present shareholding of SMC and MSIL in KML is 29.2% and 15.8%, respectively. KML is engaged in manufacturing seat sets for PVs and CVs, plastic door trims and moulded plastic components for PVs, as well as tools, dies and moulds for the manufacturing of sheet metal components and plastic parts.

The company has manufacturing facilities at four locations situated at, (i) Narsingpur, Haryana (Seating division), (ii) Manesar, Haryana (Plastic Door Trim and Seating divisions), (iii) Hansalpur Becharaji, Gujarat (Plastic Door Trim and Seating divisions) and (iv) Binola, Haryana (Tooling division).

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,412.5	1,847.7
PAT (Rs. crore)	72.4	99.9
OPBDITA/ OI (%)	9.3%	9.6%
RoCE (%)	36.1%	40.8%
Total Debt/ TNW (times)	0.2	0.2
Total Debt/ OPBDITA (times)	0.5	0.4
Interest coverage (times)	25.9	38.8

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg. (Total Debt + Tangible Net-Worth + Deferred Tax Liability-Capital Work-in Progress)

Status of non-cooperation with previous CRA: None

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)	Date & Rating November 2018	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 May 2015	
1	Term Loan	15.00	15.00	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	
2	Fund-Based/ Non-fund-based	90.00	-	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1+	

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 Loans	December 2014	9.7%	September 2019	15.00	[ICRA]AA- (Positive)
NA	Fund-based/ Non-fund based	-	-	-	90.00	[ICRA]AA- (Positive)/ [ICRA]A1+

Source: KML

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Anupama Arora

+91 124 4545 303

anupama@icraindia.com

Rohan Kanwar Gupta

+91 22 4545808

rohan.kanwar@icraindia.com

Akshay Saini

+91 124 4545 835

akshay.saini@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:

+91-124-2866928 (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) 6606 9999

© Copyright, 2018 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