

March 20, 2024

Klassic Wheels Limited: Ratings reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based / Term Loan	135.13	153.18	[ICRA]BBB+ (Stable) reaffirmed / assigned for enhanced amount
Long-term – Fund-based / Cash Credit	28.80	33.80	[ICRA]BBB+ (Stable) reaffirmed / assigned for enhanced amount
Short-term – Non-fund Based	10.00	20.00	[ICRA]A2 reaffirmed / assigned for enhanced amount
Total	173.93	206.98	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings for Klassic Wheels Limited (KWL or the company) reflects the established track record of its promoters, spanning over three decades in the wheel manufacturing industry. KWL enjoys healthy wallet share with leading domestic two-wheeler (2W) and three-wheeler (3W) original equipment manufacturers (OEMs), providing sufficient revenue visibility to the company. It has also made efforts to de-risk its profile, by venturing into the alloy wheel segment, given the increasing penetration of alloy wheels in both 2W and passenger vehicle (PV) segments. The company has been gaining business/design wins from additional OEMs as well, with orders secured for supplying steel, hybrid and alloy wheels for 2W and electric vehicle (EV) scooters. ICRA also notes that the company further plans to diversify its revenue profile by venturing into the manufacturing of steel wheels for small passenger cars and light commercial vehicles (LCVs), with minimal investments in its existing manufacturing plant.

The ratings, however, remain constrained by the moderation in KWL's profitability and debt coverage indicators amid initial delay in the ramping up of the alloy wheel plant and the debt-funded capacity expansion undertaken by KWL recently. The company also remains exposed to high customer concentration risk, with its top two customers accounting for 60% of its revenues in FY2023 (51% in 9M FY2024). However, well-established relations with reputed clients and healthy wallet share for the leading models of these OEMs provide some comfort. KWL also faces stiff competition from well-entrenched players in the wheel manufacturing industry, which limits its pricing flexibility to some extent. ICRA also notes the exposure of KWL's profitability to the volatility associated with commodity prices, as well as the inherent cyclicity in the automobile industry.

ICRA notes the ongoing capacity expansion initiatives undertaken by KWL for its alloy wheels division. While such sizeable debt-funded investments are expected to have a bearing on the capital structure over the near to medium term, timely generation of commensurate returns from these capex activities remains a key rating monitorable, going forward.

The Stable outlook on KWL's rating reflects ICRA's opinion that the company will continue to benefit from its established track record as a tier-1 supplier of steel and alloy wheels to 2W and 3W OEMs. ICRA also notes the segmental diversification initiatives undertaken by KWL by venturing into supplying steel wheels to PVs and LCVs in addition to its traditional business of supplying steel and alloy wheels to 2Ws and 3Ws.

Key rating drivers and their description

Credit strengths

Established promoter track record of more than three decades in the industry – The company is promoted by the Ahmednagar-based Munot family, who have operated in the auto ancillary business for the last two generations. The

promoters are technically qualified with a wide industrial experience in the auto ancillary sector. The Group companies, Sumesh Industries, Kaygee Foam Private Limited and Sushant Industries, are also involved in the same sector. The past track record has helped the company in onboarding new clients for its recently commissioned alloy wheels division.

Reputed clientele with healthy wallet share of leading domestic 2W and 3W OEMs – KWL has developed a reputed client base over the years, including OEMs such as Honda Motorcycle & Scooter India Pvt. Ltd. (HMSI), TVS Motor Company Limited (TVS), Piaggio Vehicles Private Limited (Piaggio), and Bajaj Auto Limited (BAL), among others. The company has a healthy wallet share in supplying steel and alloy wheel rims to various 2W and 3W models of automotive OEMs such as HMSI, TVS, Piaggio, and BAL. It is also in discussions with onboarding few leading OEMs in the EV space.

Presence in steel as well as alloy wheel for 2W segment – With the recent commercialisation of the alloy wheel facility, KWL is now present in steel as well as alloy wheel segments for 2W OEMs. While steel wheels have been traditionally preferred in scooters, the penetration of alloy wheels is gradually increasing, especially for the urban population with higher disposable income. Presence in both these wheel segments in the 2W space is expected to provide KWL with product diversification benefits. The company also manufactures hybrid wheels, a combination of steel and alloy wheels for 2Ws. It has also started supplying alloy wheels for 3W OEMs from this fiscal (FY2024) onwards, although the volumes remain modest at present. To attain higher segmental diversification, KWL also plans to venture into manufacturing steel wheels for small PVs and LCVs.

Credit challenges

Moderation in profitability and debt coverage indicators from the recent debt-funded capacity expansion – KWL has historically enjoyed operating margins in the range of 19-20% (FY2017-FY2018), albeit on a lower revenue base. The operating margins have been impacted in the recent years partly by the slowdown in the 2W industry, and partly by the more recent production issues in the new alloy wheel lines. This has resulted in the operating margin declining to 8.7% in FY2023, and 8.0% in 9M FY2024. KWL has managed to reduce the rejection rates in its alloy wheel division in recent months and, hence, ICRA expects the operating margins to improve in the medium to longer term (8-10% by FY2025). In addition to the expected improvement in operating margins, the design wins for aluminium alloy wheels among current OEMs as well as newly onboarded EV OEMs, should lead to an expected 20-25% increase in revenues. With a combination of higher profitability and subsequent debt repayments, ICRA expects the debt coverage ratios to improve in the medium to longer term (total debt / OPBITDA of 2.9 times as of 9M FY2024).

High client concentration risk – KWL faces high client concentration risk, with its top two customers accounting for 60% of its revenues during FY2023. The company's business performance is, thus, vulnerable to the performance and market share of these key customers. However, in view of the healthy market shares of these customers in the scooter segment, the risk is mitigated to a large extent. Moreover, the addition of new clients in the alloy wheel segment, and plans to diversify into the PV and LCV segments is likely to reduce its dependency on its larger customers over the medium term.

Stiff competition from well-entrenched players in the industry – The company faces stiff competition from reputed and larger players acting as captive suppliers to OEMs, besides Chinese imports in 2W wheel supplies. On the other hand, KWL enjoys a healthy share of business with its key OEMs in the 3W segment, where it has been increasing its presence.

Profitability exposed to commodity price volatility and inherent cyclicity in the automobile industry – Given the nature of the industry it operates in, KWL's profitability remains exposed to commodity price volatility; although the price escalation clause in the supply agreements with its key customers enables the company to pass on price fluctuations, thereby providing some cushion against the said risk. The margins also remain exposed to the inherent cyclicity in the automobile industry, with revenues exposed to the demand volatility. In this context, the active efforts undertaken by the company to diversify its clientele across automotive segments (such as 2Ws, 3Ws, PVs and LCVs) as well as technologies (such as ICE and EV) are expected to safeguard its business operations against any segment or technology-specific downturns, going forward.

Liquidity position: Adequate

KWL's liquidity position is expected to remain adequate, with cash flows of Rs. 30-40 crore from operations, as well as a moderate buffer of ~Rs. 17.3 crore (as of December 2023) from the undrawn working capital facilities. Against these, the company has annual debt repayments of Rs. 20-25 crore over the next 1-2 years, and capex outlay of Rs. 75-80 crore over FY2025-FY2026, which would be funded through a mix of debt and accruals. The liquidity profile draws further comfort from the financial support extended by the promoters in the form of unsecured loans, with commitment of further financial support in case of any exigencies.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of material improvement in the liquidity position and debt coverage indicators of the company on a sustained basis. Specific credit metrics that can result in a rating upgrade include TD/OPBITDA being lower than 2.3 times on a sustained basis.

Negative factors – Downward pressure on the rating could arise if KWL's scale and profitability margins show sustained deterioration and/or if the debt-funded capex undertaken does not generate commensurate returns, materially impacting its liquidity profile.

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 standalone financials of Klassic Wheels Limited.

About the company

Incorporated in 1994, KWL has been manufacturing steel wheel rims for 2Ws and 3Ws. The company has two manufacturing units at MIDC Ahmednagar, Maharashtra. KWL supplies its products to reputed automotive OEMs in India, including HMTI, TVS, Piaggio and BAL, among others. The company is promoted by the Ahmednagar-based Munot family, who have had a presence in the auto ancillary business over the last two generations. KWL has a current installed annual production capacity of 12.5 million steel rims (combined for 2Ws and 3Ws) and 1.2 million alloy (and hybrid) wheels for 2Ws. At present, it is ramping up its alloy wheel manufacturing capacity from 1.2 million wheels per annum to 2.4 million wheels per annum, with plans of further expanding the installed capacity of its alloy wheels division over the near to medium term.

The company plans to venture into manufacturing steel wheels for small PVs and LCVs as well, going forward. Group companies, Sushant Industries, Sumesh Industries and Kaygee Foam Private Limited, are also involved in the auto ancillary business, mainly undertaking trading and job-work assignments. KWL undertakes paint jobs for engine parts sold by Sumesh Industries and Sushant Industries, while it manufactures foam for Kaygee Foam Private Limited; although the quantum of inter-group sales remains modest.

Key financial indicators

KWL	FY2022 Audited	FY2023 Audited	9M FY2024 Provisional
Operating Income (Rs. crore)	298.2	436.9	351.0
PAT (Rs. crore)	0.3	2.4	0.3
OPBDIT/OI (%)	7.9%	8.7%	8.0%
PAT/OI (%)	0.1%	0.6%	0.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.4	1.5
Total Debt/OPBDIT (times)	4.7	2.7	2.9
Interest Coverage (times)	2.8	3.3	2.9

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: KWL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					March 20, 2024	December 28, 2022	July 5, 2022	July 12, 2021 October 6, 2021	October 13, 2020
1	Term Loan	Long- term	153.18	80.52	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+(Stable)
2	Cash Credit (Working Capital Facilities)	Long-term	33.80	27.03	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+(Stable)
3	Non Fund Based Facilities	Short-term	20.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Unallocated	Long-term/ Short-term	-	-	-	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+(Negativ e)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Term Loans	Simple
Long Term – Cash Credit	Simple
Short Term – Non-Fund Based	Very 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-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	FY2021	NA	FY2024	3.82	[ICRA]BBB+(Stable)
NA	Term Loan – 2	FY2019	NA	FY2026	25.00	[ICRA]BBB+(Stable)
NA	Term Loan – 3	FY2022	NA	FY2027	35.00	[ICRA]BBB+(Stable)
NA	Term Loan – 4	FY2022	NA	FY2027	3.20	[ICRA]BBB+(Stable)
NA	Term Loan – 5	FY2021	NA	FY2028	20.00	[ICRA]BBB+(Stable)
NA	Term Loan – 6	FY2021	NA	FY2028	50.00	[ICRA]BBB+(Stable)
NA	Term Loan – 7	FY2024	NA	FY2028	15.00	[ICRA]BBB+(Stable)
NA	Term Loan – 8 (Proposed)	NA	NA	NA	1.16	[ICRA]BBB+(Stable)
NA	Working Capital Facilities	NA	NA	NA	33.80	[ICRA]BBB+(Stable)
NA	Non Fund Based Facilities	NA	NA	NA	20.00	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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