May 02, 2024

Kongovi Private 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	29.35	32.35	[ICRA]BBB (Stable); Reaffirmed/Assigned for enhanced amount
Long Term – Fund Based – Cash Credit	32.00	37.00	[ICRA]BBB (Stable); Reaffirmed/Assigned for enhanced amount
Short Term – Interchangeable Limits	(3.00)	(3.00)	[ICRA]A3+, Reaffirmed
Total	**61.35**	**69.35**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Kongovi Private Limited (KPL) factors in the extensive experience and track record of its promoters in the chrome plated automotive accessories business, which has enabled it to develop long relationship with key customers, which include reputed original equipment manufacturers (OEMs) namely Toyota, Volkswagen (VW), Bentley and Nissan among others. The company also benefits from its diversified geographical presence in the domestic and international markets. KPL's revenue rose ~5% to ~Rs. 90 crore in FY2024, largely supported by its domestic sales growth, expansion of product lines and addition of new customers, even though export revenues remained flat. Further, improvement in the sales mix led the margin to expand to 21.3% in FY2024 (from 18.1% in FY2023). The company would be undertaking debt-funded capex over the near-to-medium term to enhance its capabilities and product mix. While this is expected to lead to an increase in its debt levels, it is also likely to aid in higher growth. Nonetheless, timely commissioning and scale-up of the same would be of key importance.

The ratings, however, remain constrained by the company's moderate scale of operations with revenues of Rs. 90 crore in FY2024, leading to limited economies of scale. While improvement was seen in FY2024, KPL's coverage indicators still remained moderate owing to relatively higher debt levels and scheduled repayment obligation. The ratings continue to consider the company's working capital-intensive nature of operations on the back of its elongated receivables position and high inventory holding. Nonetheless, some improvement is expected in its working capital intensity with the likely increase in its domestic sales as well as raw material sourcing.

The Stable outlook on the long-term rating reflects ICRA's expectation that KPL will continue to benefit from its established relationships with its key customers and stable demand outlook for the industry, enabling it to report higher revenue growth, steady internal accrual and improvement in its debt protection metrics.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of the promoters in the chrome plated automotive accessories business — Established in 1974, KPL has an established track record in the electroplated plastic components business for interior and exterior applications in vehicles. The company produces components like grills, logos, garnishes, door handle covers, gear knobs, mirror scalps, fog covers etc. Over the years, it has established relationships with its key customers and suppliers. Also, it benefits from the extensive experience of the promoters in this line of business.

Established relationships with key customers, which include reputed OEMs — Operating in the electroplated plastic components business for almost five decades, the company has established strong relationships with its clientele, which includes reputed OEMs such as Toyota, Bentley, Volkswagen and Nissan, among others. Further, KPL enjoys the sole supplier status for certain components of some models. Its established association with key customers and proven operational track record help in getting repeat orders from clients.

Diversification of revenue stream, given presence in both domestic and export markets — KPL's revenue stream is well diversified as it caters to both the domestic and the export markets. In FY2024, exports accounted for ~25% of the total revenues. While the share of exports has reduced over the past few years, healthy growth in domestic revenues has supported KPL's overall growth.

Credit challenges

Moderate scale of operations, leading to limited economies of scale — The company's scale of operations remains moderate (revenue of ~Rs. 90 crore in FY2024) compared to the size of the industry, which results in relatively limited economies of scale. Moreover, the company's addressable market is smaller than other auto components players. As KPL derives its entire revenues from the PV industry, it remains exposed to the cyclicality inherent in this segment.

Moderate coverage indicators due to debt-funded capex — Notwithstanding some improvement in FY2024, coverage indicators continued to remain moderate with DSCR of 1.2 times and TD/OPBIDTA of 2.9 times. Going forward, the debt levels are expected to remain relatively higher as the company is expected to incur debt-funded capex to enhance its capacities and widen its product mix. Nonetheless, with scale-up in operations and improvement in accrual generation, the company would be comfortably able to meet the repayment obligations.

High working capital intensity — Despite improvement in FY2024 on account of reduction in the inventory holding period, KPL's working capital intensity continued to remain high with NWC/OI of 59.2% (against 63.2% in FY2023). The working capital intensity is likely to improve slightly with the expected increase in the share of domestic sales and raw material sourcing and decrease in receivable and inventory days to an extent.

Liquidity position: Stretched

The company's liquidity position is **stretched** on account of its modest cash and bank balance of Rs. 1.3 crore as of March 31, 2024 and limited buffer in the form of undrawn capital limits. However, the company is expected to enhance its working capital limits over the near-to-medium term, which are expected to support its liquidity position. KPL is also likely to incur sizeable capex over the near-to-medium term, which is likely to be funded largely through debt. The company has relatively high debt repayment liability of ~Rs. 9 crore in FY2025. However, internal accrual generation is expected to be higher in the current fiscal. Further, the promoters have infused funds in the form of unsecured interest free loans of ~Rs. 4 crore and Rs. 1.7 crore in FY2023 and FY2024, respectively, and are expected to provide additional funding support, if required, which provides comfort.

Rating sensitivities

Positive factors – ICRA could upgrade KPL's ratings if the company reports a healthy increase in the scale of operations and internal accrual generation, resulting in an improvement in its liquidity position and debt protection metrics on a sustained basis. Specific credit metrics that could lead to an upgrade in ratings include Total Debt/OPBITDA below 2.5 times on a sustained basis.

Negative factors – Negative pressure on KPL's ratings could arise if there is considerable decline in its internal accrual generation, or higher-than-anticipated debt-funded capex and elongation of the working capital cycle, resulting in weakening of its liquidity position and debt protection metrics on a sustained basis. Specific credit metrics that could lead to ratings downgrade include Total Outside Liabilities (TOL)/Tangible Net Worth (TNW) greater than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of KPL.

About the company

KPL, the erstwhile Kongovi Electronics Private Limited, established in 1974, is a closely held company promoted by Mr. S Kongovi and family. The company produces chrome-plated automotive plastic components for interior as well as exterior applications for OEMs of the passenger car industry. KPL supplies trims for interior and exterior applications, which are used for their aesthetic appeal. The components include grills, logos, garnishes, door handle covers, gear knobs, body mouldings, mirror scalps and fog covers. In 2017, KPL had set up a new plant at Kukkanahalli, Bangalore North Taluk, for enhancing its production capacity and consolidating the operations of its earlier three plants. The company shifted its manufacturing activities from three of its earlier plants to the new plant during FY2018–FY2019.

Key financial indicators (audited)

KPL - Standalone	FY2022	FY2023	FY2024*
Operating income	82.0	86.2	90.5
PAT	5.3	5.7	6.3
OPBDIT/OI	18.8%	18.1%	21.3%
PAT/OI	6.5%	6.6%	7.0%
Total outside liabilities/Tangible net worth (times)	1.2	1.1	1.1
Total debt/OPBDIT (times)	3.7	3.4	2.9
Interest coverage (times)	4.6	5.3	4.1

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional financials*

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 March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 02, 2024	Apr 03, 2023	-	Feb 24, 2022
1	**Fund Based – Term Loan**	Long term	32.35	14.40	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	-	[ICRA]BBB+ (Stable)
2	**Fund Based – Cash Credit**	Long term	37.00	-	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	-	[ICRA]BBB+ (Stable)
3	**Interchangeable Limits**	Short term	(3.00)	-	**[ICRA]A3+**	[ICRA]A3+	-	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loan	Simple
Long Term – Fund Based – Cash Credit	Simple
Short Term – Interchangeable Limits	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 Loan**	2020-2023	9.5-10%	2029	32.35	[ICRA]BBB (Stable)
NA	**Fund Based – Cash Credit**	NA	NA	NA	37.00	[ICRA]BBB (Stable)
NA	**Interchangeable Limits**	NA	NA	NA	(3.00)	[ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable.

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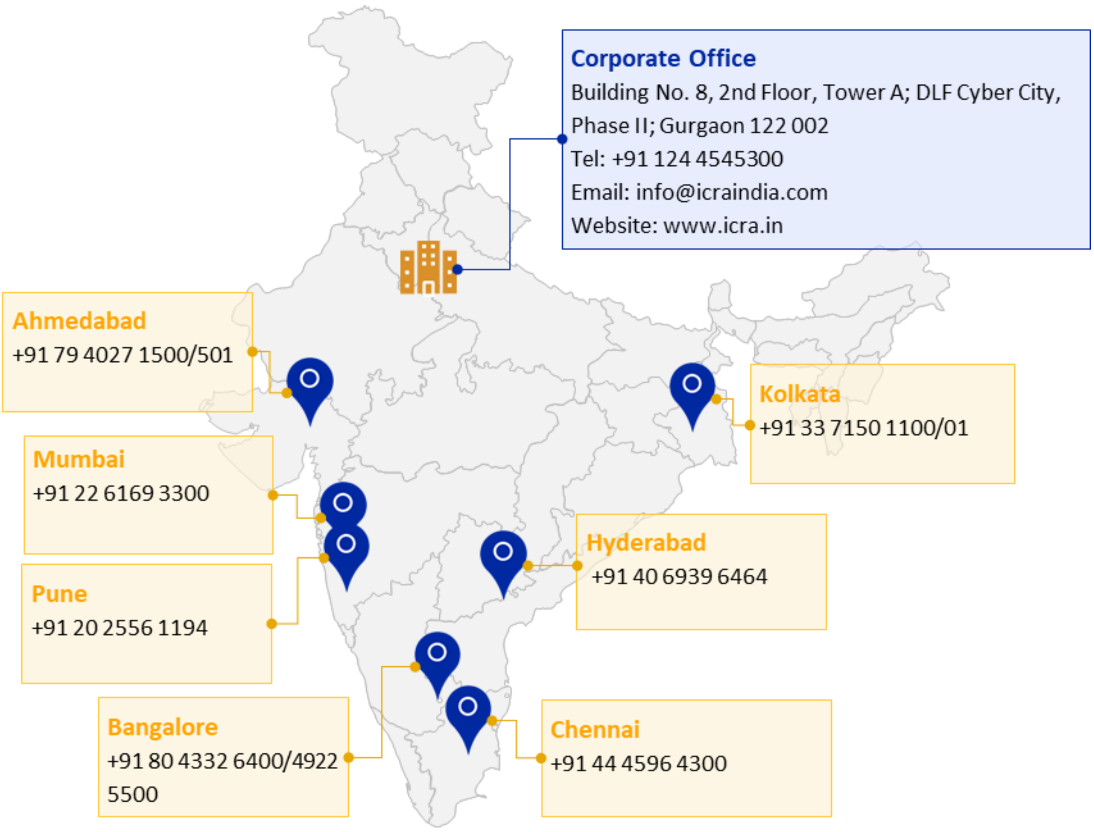

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