June 15, 2022

Krishna Maruti Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund based/Non-fund based	90.00	90.00	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed
Total	**90.00**	**90.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings for Krishna Maruti Limited (KML) factors in the continued healthy operational performance of the entity, aided by its healthy share of business for both its seat sets and plastics division, with Maruti Suzuki India Limited (MSIL), the leading passenger vehicle (PV) original equipment manufacturer (OEM) in the domestic market. In FY2022, even as the prospects of the PV segment were impacted by the second Covid-19 wave and semiconductor chip shortages, KML recorded a robust growth in revenues (33% in FY2022, provisional financials), aided by the strong ramp up in scale of operations, the company continued to maintain healthy operating margins of 10.6%, despite the pressure from severe raw material hardening.

Over the years, KML has continued to gain business for new model launches of the OEM for its seat set division, helping it maintain strong share of business (SOB) with MSIL (~70% since FY2020). KML commands even a higher SOB of ~80-85% for its door trims segment (part of plastics division) with the OEM. The strong operational performance on the back of additional business won and better performance of models catered by KML have translated into healthy cash accruals for KML and has aided it in maintaining a strong credit profile, characterised by strong return indicators, negligible debt and strong cash and liquid investments (~Rs. 595.2 crore (standalone) as on March 31, 2022). Even as the company has capex plans over the near-to-medium term towards setting up additional facilities in Gujarat to cater to MSIL, KML's reliance on debt is expected to remain negligible and it is likely to maintain a robust financial risk profile.

The ratings continue to take into account the favourable 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 ensured revenue visibility for KML over the medium term.

KML remains exposed to significant segment and client concentration risks, as most of the revenues emanate from MSIL. The risk, however, is mitigated to an extent by the 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 supplying to other OEMs, the share of the same in the overall revenue pie is likely to remain at marginal levels in the near-to-medium term. Moreover, the revenue prospects of KML are expected to remain linked to the prospects of MSIL. The company also faces significant product concentration risk, as ~71% of its revenues in FY2022 were driven by seat sets. Towards this effect, the company acquired three plants of Trim India Private Limited in FY2022 to diversify its product profile in the plastics division. The company continues to be on the lookout for similar opportunities, going forward, to further diversify its product profile.

ICRA notes that the company's board has approved extension of corporate guarantee (CG) of up to Rs. 500 crore for bank facilities availed by group entities, SKH Metals Limited and SKH Sheet Metal Components Private Limited (board approval in FY2021), along with extension of loan of up to Rs. 150 crore to Krisumi Corporation (non-automotive entity) (board approval in FY2022). The corporate guarantees extended as on date cover majority of SKH Metals Limited's debt and, accordingly, ICRA has consolidated SKH Metals Limited's financials with that of KML, while arriving at its ratings. Although the support extended to weaker group entities till date has not materially impacted KML's credit metrics due to availability of surplus cash and liquid investments, extension of further support to group entities would remain a key monitorable, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that KML will continue to benefit from its established relations with MSIL and technical collaboration with Snic Corporation, helping it generate healthy cash accruals and maintain a robust credit profile over the medium term.

Key rating drivers and their description

Credit strengths

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

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

Healthy financial risk profile and strong liquidity profile – The company's standalone financial risk profile is characterised by strong return indictors (core RoCE of 85.9% in FY2022; provisional), conservative capital structure (negligible reliance on external debt) and strong debt coverage indicators (Total Debt/OPBDITDA of 0.1 time and interest coverage of 64.1 times in FY2022; provisional). Additionally, it continues to have a strong liquidity profile with available liquid investments and cash balances of ~Rs. 595.2 crore as on March 31, 2022. The liquidity profile is also supported by financial flexibility in the form of unutilised working capital limits from banks. Upon consolidation of SKH Metals Limited's financials with KML, the consolidated entity continues to have healthy returns and debt coverage metrics (Total Debt/OPBDITA of 1.4 times in FY2021) as well as strong liquidity (resulting in negative net debt position).

Credit challenges

High client and segment concentration risks with revenues primarily driven by MSIL – Over the years, most of KML's revenues have been generated from MSIL, leading to client concentration as well as segment concentration risks. Nevertheless, the company's favourable ownership pattern, coupled with its strong share of business and the leadership position of MSIL in the domestic PV industry, mitigates the client concentration risk to an extent. Even though the company has started supplying to other OEMs, the revenue from MSIL is likely to dominate in the near-to-medium term. KML's ability to diversify into other customers and/or segment and reduce its segment concentration risk would remain a key rating sensitivity.

High product concentration risk – The company's product portfolio primarily consists of automotive seat sets and door trims (part of plastics division) for PVs. While KML derives revenues from seat sets and plastics division, most of its revenues emanate from seat sets (71% in FY2022), resulting in product concentration risk. The risk is, however, mitigated to an extent by the continuous inflow of orders from MSIL. Going forward, while revenues from plastics division are expected to provide diversification benefits, revenues from the sale of seat sets are likely to dominate over the medium term. The company has acquired three plants of Trim India Private Limited in FY2022 with an aim to diversify its product profile in the plastics division; the company continues to be on the lookout for similar opportunities going forward with a view of further diversifying its product profile.

Extension of support to weaker group entities – The company's board approved extension of corporate guarantee (CG) of up to Rs. 500 crore (outstanding guarantees of ~Rs. 283 crore[1] as on date) for bank facilities availed by SKH Metals Limited and SKH Sheet Metal Components Private Limited in FY2021. During FY2022, KML's board also approved extension of loans of up-to Rs. 150 crore (outstanding loans and advances of ~Rs. 60 crore as on date) to Krisumi Corporation, which is present in the non-automotive segment. Despite these guarantees/loans, KML's financial profile continue to remain strong supported by healthy cash and liquid investments reserves. However, going forward, extension of further material support to group entities would remain a key monitorable.

Liquidity position: Strong

KML's liquidity remains strong, characterised by healthy cash flow from operations, cash and liquid investments of ~Rs. 595.2 crore as on March 31, 2022 and an average working capital buffer of ~Rs. 50-60 crore. The company is expected to incur a sizeable capex of ~Rs. 225-250 crore in FY2022, mainly to set up two new plants in Gujarat, one each for the seats and plastics division. Further, the company does not have any debt repayment obligations and is expected to meet its capex requirements over the near to medium term from internal sources and yet be left with sufficient buffer.

Rating sensitivities

Positive factors – A positive rating action could be triggered by a sustainable scale-up in the company's scale of operations brought about by material customer and product diversification, while maintaining healthy credit metrics and liquidity profile.

Negative factors – The rating could be negatively impacted by a sharp contraction in volumes in the near-to-medium term, which leads to a deterioration in the company's capacity utilisation levels and significantly impacts profitability and return metrics. Further, extension of incremental support in terms of corporate guarantee/loans to group entities, thereby materially impacting KML's credit profile, could result in a negative rating action. Specific credit metric that could lead to a downgrade would be Net Debt/OPBITDA (at a consolidated level) being more than 1.0 time on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Rating Approach- Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KML. As of March 31, 2022, the company had one subsidiary and one joint venture, which are enlisted in Annexure-2. The scale of operations of the consolidated entity is not material, and the standalone credit profile remains the primary rating driver. ICRA has also consolidated the financials of KML and SKH Metals Limited while arriving at the ratings, given that the former has extended corporate guarantees for most of the latter's bank facilities.

About the company

KML, incorporated in June 1991 as Sona Car Seat Ltd., is one of the largest suppliers of seat sets and door trims to MSIL. In 1994, following the acquisition of 24.3% shareholding by SMC and 13.1% by MSIL, the company was renamed as KML. The present shareholding of SMC stands at 29.2% and that of MSIL at 15.8%. The company manufactures seat sets and door trims

[1] *Amount outstanding against guaranteed facilities is Rs. 236.8 crore as of March 31, 2022.*

for PVs, plastic injection moulded components for two-wheelers and PVs, as well as tools, dies and moulds for manufacturing sheet metal components and plastic parts. The company has 12 manufacturing facilities across Haryana and Gujarat.

Key financial indicators (audited)

KML	Standalone			Consolidated (ICRA Estimated)*	
	FY2020	FY2021	FY2022 (Prov.)	FY2020	FY2021
Operating Income (Rs. crore)	2,330.5	2,107.8	2,805.5	3,065.9	2,839.1
PAT (Rs. crore)	150.2	135.8	182.0	150.5	138.3
OPBDIT/OI (%)	11.6%	10.6%	10.6%	11.3%	10.1%
PAT/OI (%)	6.4%	6.4%	6.5%	4.9%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6	0.6	1.1	1.0
Total Debt/OPBDIT (times)	0.3	0.1	0.1	1.2	1.4
Interest Coverage (times)	71.2	53.1	64.1	9.4	8.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Consolidated with SKH Metals Limited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 15, 2022	May 21, 2021	Apr 29, 2020	Nov 21, 2019
1	Fund-Based/ Non-fund-based	Long Term/ Short Term	90.0	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund based/Non-fund based	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term – Fund based/Non-fund based	NA	NA	NA	90.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
SKH Metals Limited	0.00%*	Full Consolidation
Krishna Hanguk Technologies Private Limited	55.00%	Full Consolidation
Krishna Group Antolin Private Limited	50.00%	Equity method

Source: *Annual Report;* ***Note:*** *ICRA has taken a consolidated view of the parent (KML), its subsidiaries and associates while assigning the ratings.; * KML has extended a corporate guarantee for a majority of SKH Metal Limited' bank facilities*

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About ICRA Limited:

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