May 25, 2023

Krishna Ishizaki Auto Ltd.: 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	21.00	21.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	**21.00**	**21.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation favourably factors in Krishna Ishizaki Auto Ltd.'s (KIAL) strong business position as a major supplier of outside rear-view mirrors (ORVMs) and inside rear-view mirrors (IRVMs) to Maruti Suzuki India Limited (MSIL) and Honda Cars India Limited (Honda). KIAL enjoys ~70-75% share of business with MSIL and ~90% with Honda for ORVMs and IRVMs. Over the years, the company has gained incremental business for a number of new models launched by these original equipment manufacturers (OEMs), which augurs well for its future revenue visibility. Further, the ratings draw comfort from KIAL's strong financial risk profile with debt-free status and strong liquidity (reflected in its cash and liquid investments of ~Rs. 84 crore as on March 31, 2023).

Following the Covid-19 disruptions, which led to a decline in KIAL's revenues in FY2021, the performance improved sequentially over the last two years, with YoY revenue growth of 28% and 18% in FY2022 and FY2023, respectively, aided by healthy demand in the passenger vehicle (PV) industry. However, the EBITDA margins dipped by 250-300 bps in FY2023 from 19.5% in FY2022 due to inflationary pressure on input costs (a significant portion of raw material is imported) and other factors such as—(a) intense competition from other players leading to lower realisations, (b) import of sub-parts where profitability is lesser than localised parts, and (c) lower and middle variants increasingly gaining preference, which come with electric actuators as opposed to paddle type mirrors in lower variants that provide relatively lower margins. Nevertheless, the margins continue to be at healthy levels, benefitting from the backward integration of critical components such as actuator line, glass-processing line and induction moulding, besides benefits of operating leverage. The company has reported strong returns and profitability indicators over the years with total Debt/ OPBDITA and gearing at 0.2 time and 0.1 time, respectively, as on March 31, 2022.

The ratings favourably note KIAL's technological support from Ishizaki Honten Co. Ltd. (Ishizaki) that holds 50% equity stake in the company. Ishizaki is a leading Japanese rear-view mirror designer and manufacturer for various PV OEMs. The technological support from Ishizaki, underpins the company's abilities to adapt to the changing technological requirements of the OEMs, thus allowing it to maintain healthy business with MSIL and Honda, and leverage its capabilities with other OEMs for new business.

The above strengths are partially offset by the high client and segment concentration risks faced by KIAL with ~90% of its revenues generated by a single customer, MSIL. The company also faces the risk of segment concentration with the PV segment being its only end-user segment. The customer concentration risk is mitigated to an extent by KIAL's established relationships with MSIL and the OEM's status as the market leader in the Indian PV industry. ICRA notes that the company's inability to generate revenues through exports (because of the logistics-unfriendly nature of its products) increases its reliance on the domestic customer base. Moreover, being a single-product company, its scale of operations is limited to an extent. However, the long-term prospects of the PV industry remain favourable, with personal mobility preference aiding volumes since relaxations in lockdowns. This ensures healthy revenue visibility for KIAL over the medium to long-term.

The Stable outlook on the long-term rating reflects ICRA's opinion that KIAL will continue to benefit from its technical collaboration with Ishizaki and established relations with MSIL and Honda, helping it maintain a healthy credit profile over the medium term.

Key rating drivers and their description

Credit strengths

Majority share of business for ORVMs/IRVMs with MSIL – KIAL is the leading supplier of ORVMs and IRVMs to MSIL (the market leader in the domestic PV industry) and Honda. Overall, the company enjoys ~70-75% share of business with MSIL and 90-100% with Honda. It has been able to gain incremental business for the new models of these OEMs to be launched in FY2024 and FY2025, which provides healthy revenue visibility over the medium term. The company is also in discussion with other OEMs for additional business.

Strong financial risk profile – The company's financial profile is characterised by robust RoCE (25-35%), aided by strong profitability margins and high asset sweating. Further, with healthy cash flow generation and low capital expenditure requirement, KIAL has maintained almost negligible debt position over the years, along with sizeable cash and liquid investments (~Rs. 84 crore as on March 31, 2023). The company is planning to enhance manufacturing capacity to cater to the growing demand from MSIL; however, the plans are yet to be finalised. The capex will be funded through internal accruals as per the management.

Technological support from parent entity – KIAL receives technological support from its parent company, Ishizaki, a leading Japanese auto component company involved in designing and manufacturing rear-view mirrors to various global OEMs. The technological support from Ishizaki helps KIAL in adapting to the changing technological requirements of MSIL/Honda, helping it maintain a healthy share of business in ORVM/IRVM supplies to the OEMs, and pitch its products to other OEMs.

High levels of backward integration – The company has high levels of backward integration with actuator line, glass-processing line and induction moulding already manufactured in-house. It will also start in-house production of power folding and side turn indicator mechanisms for some of its models. This enables higher value addition, which helps it in maintaining a competitive cost structure and stable operating margins. Going forward, KIAL plans to manufacture radar sensor, which will ensure further cost competitiveness.

Credit challenges

Client and segment concentration risks – KIAL generates a predominant share (88-89%) of its business from a single customer, MSIL. As a result, the company's performance and prospects are closely linked to that of MSIL. Although significant dependence on MSIL results in increased client concentration risk, this is mitigated to an extent because of MSIL's market leadership in India's PV segment and KIAL's strong share of business with the OEM. With the management focusing on ramping-up revenues from other OEMs, the dependence on MSIL is likely to reduce to an extent over the medium term.

Limited scale of operations with a single-product line – The company's scale of operations is small with revenues of ~Rs. 389 crore in FY2023 (provisional). KIAL is a single-product company and primarily supplies ORVMs and IRVMs to select OEMs; thus, it is constrained by a niche market segment. Further, the exports remain constrained because of the logistics-unfriendly nature of the parts KIAL manufactures. Nevertheless, the company's business position remains strong, as the one of the largest PV mirror manufacturer in the domestic market.

Liquidity position: Strong

KIAL's liquidity has remained strong, with healthy cash flow from operations (estimated cash flows of Rs. 45-50 crore in FY2024), cash and liquid investments of Rs. 84 crore and a working capital buffer of Rs. 12 crore as on March 31, 2023. The company is expected to incur a regular capex of ~Rs. 10 crore p.a. in the near term; it plans to expand the capacity at its existing plants or set up new assembly lines at Kharkhoda, Haryana; however, the plans are yet to be finalised. It is expected to meet its capex requirements from internal accruals and does not have any debt repayment obligations. Moreover, the company has healthy financial flexibility, as part of the Krishna Group.

Rating Sensitivities

Positive factors – Given the limited scale of operations and high client concentration, a rating upgrade in the near-to-medium term is unlikely. However, ICRA may upgrade KIAL's ratings in the medium to long-term if it is able to scale up operations through a sustainable and material diversification of its product segment and customer profile.

Negative factors – Any significant deterioration of the company's financial risk profile due to debt-funded capex or any inorganic growth initiative could trigger a rating downgrade. Any sizeable dividend payment, which materially impacts the company's liquidity profile on a sustained basis, or a material decline in its market share will also be considered unfavourable. Specific credit metrics for a downgrade include debt/OPBDITA greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Krishna Ishizaki Auto Ltd. (KIAL) is a part of the Delhi-based Krishna Group, a leading automotive component supplier in the domestic market. KIAL primarily supplies ORVMs and IRVMs to MSIL and Honda. The company's share of business with MSIL is over 70% and has improved over the past few years, aided by new business from the OEM for its recently launched models in India. The company is a 50:50 joint venture (JV) between Mr. Ashok Kapur of the Krishna Group and Ishizaki Honten Co. Ltd., Japan. It has a technical knowledge sharing agreement with Ishizaki, which provides access to technology, design and manufacturing capabilities. KIAL has two plants—one in Binola (Haryana) and the other in Dalsana (Gujarat)—with a production capacity of 10 lakh cars p.a. and 5 lakh cars p.a., respectively.

Key financial indicators (audited)

KIAL (Standalone)	FY2021	FY2022	FY2023 (Prov.)
Operating Income	258.3	329.6	389.1
PAT	28.4	35.4	39.1
OPBDIT/OI	20.0%	19.5%	16.5%
PAT/OI	11.0%	10.7%	10.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	-
Total debt/OPBDIT (times)	0.3	0.2	-
Interest coverage (times)	30.1	35.9	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; balance sheet figures not available for provisional financials

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 25, 2023	-	Mar 10, 2022	Feb 26, 2021
1	**LT/ST Fund-based/Non-fund Based Facilities**	Long term and short term	21.0	-	**[ICRA]AA-(Stable)/[ICRA]A1+**	-	**[ICRA]AA-(Stable)/[ICRA]A1+**	**[ICRA]AA-(Stable)/[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT/ST Fund-based/Non-fund Based Facilities	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	**LT/ST Fund based/Non-fund Based Facilities**	NA	NA	NA	21.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

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

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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.

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