June 14, 2023 (Revised)

Kay Jay Forgings Pvt.Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	NA	[ICRA]BBB+(Stable); Reaffirmed
Long-term Fund-based Term Loans	52.00	79.61	[ICRA]BBB+(Stable); Reaffirmed
Long-term/ Short -term – Fund-based Limits	77.00	87.00	[ICRA]BBB+(Stable)/ [ICRA] A2; Reaffirmed
Short-term – Fund-based Limits	50.00	-	-
Short-term – Non-fund Based Facilities	1.00	1.00	[ICRA]A2; Reaffirmed
Unallocated Limits	-	12.39	[ICRA]BBB+ (Stable)/ [ICRA] A2; Reaffirmed
Total	**180.00**	**180.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to favourably factor in an expectation of stable operating performance for Kay Jay Forgings Pvt. Ltd. (KJFPL), benefitting from its established relationship and strong share of business for forged engine components with its major customer, TVS Motors Company (TVS). The rating continues to favourably factor in the extensive experience of KJFPL's promoters, spanning over 40 years in the two-wheeler (2W) industry.

KJFPL is one of the leading suppliers of forged components to TVS and has been associated with it for the more than 35 years, managing to consistently maintain a healthy share of business on the back of regular investments in capacities and quality standards. In addition, the company supplies to Hero Motocorp Limited (HMCL; [ICRA]AAA(Stable)/A1+) (both as Tier I and II supplier). Over the years, the company's product portfolio has evolved from forged components to entire assembly of systems, which has led to improvement in the content per vehicle. KJFPL maintained a healthy performance in FY2023, reflected in estimated revenue growth of ~24% (~28% growth in FY2022), despite the prospects of the key industry catered—2Ws—remaining muted for most part of the year. Besides a healthy growth in business with its key customer, TVS, the company benefitted from growth of business with new customers, driving the robust growth in revenues. Aided by an improved scale of operations, KJFPL's operating margins have also remained consistent at ~9.0–9.5%, despite the inflationary pressures on raw material prices. The company's earnings are expected to grow at a healthy pace over the medium term, aided by ramp up in supplies for its new customers.

The ratings remain constrained by the company's high customer and industry concentration risks, even as the same has improved over the years led by the company's focus on diversification. KJFPL derived approximately 80% of its total revenues from the domestic 2W industry as of FY2023 (~95% in FY2022), which exposes it to demand slowdown in this industry. KJFPL's high dependence on TVS (~75% of revenues) also results in customer concentration risks. However, the same is partially mitigated as KJFPL is a leading supplier of crankshafts and crankshaft assemblies for TVS and benefits from the high degree of retention for suppliers of critical engine components. In addition to the company trying to de-risk its business profile by expanding its presence with other Original Equipment Manufacturers (OEMs), KJFPL has also focussed on improving exports—although the revenues from the same remained muted in FY2023 due to inflationary pressures in the international markets (exports accounted for ~5% of revenues in FY2023).

KJFPL's capex outlay towards capacity expansion as well as maintenance and upgradation is expected to remain at ~Rs. 30 crore in FY2024, funded by a mix of debt and internal accruals. Despite the same, however, the company's credit metrics are expected to improve gradually over the medium term aided by a scale up in operations and steady cash accruals.

The Stable outlook on the long-term rating reflects ICRA's expectation that KJFPL will continue to benefit from its association with TVS and increase in content per vehicle, led by a shift in its product portfolio from forged components to entire assemblies, aiding the company to record healthy cash flows. In addition, the company's efforts to gain new businesses from existing as well as new customers are expected to support its revenue growth over the medium term, and help it maintain its credit profile.

Key rating drivers and their description

Credit strengths

Leading supplier of forged components for the 2W industry – KJFPL enjoys a single supplier status for ~95% of its products sold to its main customer, TVS. KJFPL's well-established association with TVS has evolved over the years as the company has evolved from manufacturing single components to entire assembled parts. In addition to TVS, KJFPL supplies to Mahindra & Mahindra (M&M) and Hero MotoCorp Limited (HMCL, via Bajaj Sons Limited and Bajaj Motors Limited). The established relationships and share of business with its customers provide healthy revenue visibility for KJFPL.

Increasing share of value-added products in portfolio – The share of value-added products, such as entire crankshaft assemblies, has increased in KJFPL's product portfolio over the years, thereby supporting its revenues. Additionally, the machining content has increased in its product profile, which has further supported its revenue growth and margin prospects.

Experienced promoters with industry expertise of more than three decades; track record of funding support – KJFPL is promoted by Mr. GK Kothari and family who have been associated with KJFPL for more than 35 years. The family, which is also actively involved in the management of the company, has a track record of providing funding support to KJFPL's expansion plans and has successfully established relationships with its customer base.

Credit challenges

High customer and industry concentration risks – Approximately 80% of the company's sales are driven by the domestic 2W segment, which exposes the company to any downturn in demand in this industry. In addition to sector concentration, 70-75% of KJFPL's total revenues are driven by TVS, leading to high customer concentration risk as well. ICRA notes that the customer concentration risk is partly mitigated by KJFPL's established relationship with TVS and a high degree of stickiness as a supplier of key engine components. The customer concentration is also partially mitigated by KJFPL's high quality standards and regular investments in capacity addition, which has helped it increase its business share with TVS. In addition, KJFPL has been adding new customers to diversify its customer profile and improving its scale of business, which is expected to mitigate the risks, going forward.

Contribution of exports remain low – Currently, KJFPL exports steering system yokes for PVs to Robert Bosch's facilities in France and Hungary. Besides geographic diversification, the export business is aimed at diversifying the company's business profile by bringing in exposure to the PV segment. While the company has increased in exports in absolute terms in recent years, the same continues to be a small part of the company's revenues (~5% of its total revenues in FY2023).

Transition towards electric vehicles (EVs) pose long-term challenge – As a supplier of engine components for the 2W industry, with the crankshafts business driving 25–30% of its total revenues, KJFPL's revenue growth prospects over the medium term remain exposed to the disruption emanating from the gradual shift towards EVs. To mitigate the same, KJFPL started supplying to Greaves Electric Mobility Private Limited (Ampere) in FY2022, which generated traction in FY2023. Going forward, the company's ability to mitigate the risk of transition towards e-mobility would remain a key rating sensitivity.

Liquidity position: Adequate

KJFPL's liquidity position is adequate, supported by steady fund flow from operations and available working capital buffer (average buffer of ~Rs. 20-25 crore over the past 12 months ending March 2023). The company's capex requirements are expected to remain at ~Rs. 30 crore for FY2024, similar to FY2023 levels. In addition, KJFPL has total debt repayments of about Rs. 18 crore in FY2024 towards existing term loans. Overall, ICRA expects KJFPL to be able to meet its near-term commitments through a mix of internal accruals, available lines of credit and term loans.

Rating sensitivities

Positive factors – KJFPL's business profile is characterised by high customer and industry concentration risks. The company's ability to, therefore, diversify its business profile by securing new business from other automotive segments and improve its scale of operations would be considered favourably for a rating upgrade. In addition, improvement in the financial risk profile by de-leveraging the balance sheet and strengthening the profitability indicators would remain critical for an upward rating revision. Specific credit metrics could include TD/OPBDITA below 2.3x on a sustained basis.

Negative factors – Negative pressure on the ratings could arise in case of weakening of the credit and profitability indicators. Specific credit metrics that could lead to a rating downgrade include TD/ OPBDITA above 3x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Auto Component Suppliers]
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

KJFPL is a manufacturer of forged, machined and precision sheet metal components for the automotive sector. Established in Ludhiana (Punjab) in 1983, at present, the company has four units in Ludhiana and two in Hosur (Tamil Nadu). In addition, the company is in the process of acquiring another land parcel in Ludhiana.

The company's largest customer is TVS (~75% of total sales in FY2023) to whom it supplies several forged components, including crankshaft assemblies, connecting rods, petrol tanks and brake pedal assemblies, among others. The company's domestic sales are mostly to 2W OEMs and Tier I suppliers of 2W OEMs. The company also exports steering system yokes to Robert Bosch in France and Hungary (~5% of revenues in FY2023).

Key financial indicators (audited)

KJFPL Standalone	FY2021	FY2022	FY2023*
Operating Income (Rs. crore)	383.1	490.7	610.6
PAT (Rs. crore)	3.6	14.4	17.1
OPBDIT/OI (%)	8.1%	9.6%	9.4%
PAT/OI (%)	0.9%	2.9%	2.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	2.1	NA
Total Debt/OPBDIT (times)	4.6	2.8	2.8
Interest Coverage (times)	2.8	3.8	4.5

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortization; *Provisional financials*

Status of non-cooperation with previous CRA: CRISIL had suspended its rating for KJFPL in April 2016 due to lack of information.

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 Feb 13, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					June 14, 2023	May 9, 2022	Apr 30, 2021	-
1	Issuer Rating	Long-term	NA	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Fund-based – Term Loans	Long-term	79.61	79.61	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Fund Based Limits	Long and Short Term	87.00	-	[ICRA]BBB+ (Stable)/ [ICRA] A2	[ICRA]BBB+ (Stable)/ [ICRA] A2	[ICRA]BBB+ (Stable)/ [ICRA] A2	-
4	Fund Based Limits	Short Term	-	-	-	[ICRA]A2	[ICRA]A2	-
5	Non Fund-Based Facilities	Short Term	1.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
6	Unallocated Limits	Long and Short Term	12.39	-	[ICRA]BBB+ (Stable)/ [ICRA] A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Long-term Fund-based – Term Loans	Simple
Long-term/short-term Fund based Limits	Simple
Short -term – Non Fund Based Facilities	Very Simple
Unallocated limits	Not Applicable

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 No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	**Issuer Rating**	NA	NA	NA	-	[ICRA]BBB+ (Stable)
NA	**Term Loan-I**	FY2017	NA	FY2029	49.50	[ICRA]BBB+ (Stable)
NA	**Term Loan-II**	FY2017	NA	FY2025	4.36	[ICRA]BBB+ (Stable)
NA	**Term Loan-III**	FY2021	NA	FY2026	9.41	[ICRA]BBB+ (Stable)
NA	**Term Loan-IV**	FY2021	NA	FY2029	16.34	[ICRA]BBB+ (Stable)
NA	**Fund Based Limits**	NA	NA	NA	87.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	**Non Fund-Based Facilities**	NA	NA	NA	1.00	[ICRA] A2
NA	**Unallocated Limits**	NA	NA	NA	12.39	[ICRA]BBB+(Stable)/[ICRA] A2

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

Corrigendum

Document dated June 14, 2023, has been corrected with revision as detailed below:

Revisions made on page number 1 under section – 'Summary of Rating Action'. Rating acting against ' Short-term – Fund-based Limits' is blank instead of [ICRA]A2; Reaffirmed.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91-44-45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Debadrita Mukherjee
+91 124-4545342
debadrita.mukherjee@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (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

Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

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.