

September 27, 2023

Krishna Maruti 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/ Short-term – Fund-based/ Non-fund based	90.00	150.00	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed/Assigned
Total	90.00	150.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for Krishna Maruti Limited (KML) factors in the expectation of 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. KML recorded a robust growth in revenues (17.5% in FY2023, provisional financials), aided by healthy demand in the PV industry. Supported by its healthy capacity utilisation levels, the company continued to maintain healthy operating margins of 10.6% in FY2023. The entity is expected to continue to generate healthy earning, going forward, aided by a continuation of healthy demand trends in the PV industry, helping the entity maintain a strong credit profile.

Over the years, KML has continued to gain business for new model launches of its client OEM in the seat set division, helping it maintain strong share of business (SOB) with MSIL (~68-70%). 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. 637 crore (standalone) as on March 31, 2023). Even as the company has capex plans over the next two years for setting up additional facilities in Kharkhoda (Haryana) to cater to MSIL (~Rs. 200 crore), 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 its revenues emanate from MSIL. The risk, however, is mitigated to an extent by the strong SOB 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 its 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 FY2023 were driven by seat sets. To mitigate this risk, the company had acquired three plants of Trim India Private Limited in FY2022 to diversify its product profile in the plastics division. The company continues to seek similar opportunities to further diversify its product profile.

ICRA notes that the company's board had approved extension of corporate guarantee (CG) of up to Rs. 500 crore for bank facilities availed by select group entities 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 with a small share provided to two other entities, SKH Sheet Metal Components and Krishna Hanguk Pvt. Ltd. Accordingly, ICRA has consolidated SKH Metals Limited's financials with that of KML in its analysis. 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 with and healthy SOB for MSIL's seat sets and door trims; 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 relationship, the company has been able to maintain its healthy SOB 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 SOB with MSIL.

Healthy financial risk profile and strong liquidity profile – The company's standalone financial risk profile is characterised by strong return indicators (core RoCE of 82.6% in FY2023; 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 73.0 times in FY2023; provisional). Additionally, it continues to have a strong liquidity profile with available liquid investments and cash balances of ~Rs. 637 crore as on March 31, 2023. The liquidity profile is also supported by largely unutilised working capital limits from banks. Even 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 0.9 time in FY2023) as well as a strong liquidity position (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 by MSIL, leading to client concentration as well as segment concentration risks. Nevertheless, the company's favourable ownership pattern, coupled with its strong SOB 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, revenue from MSIL is likely to dominate in the near-to-medium term. KML's ability to diversify into other customers and/or segments 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, most of its revenues emanate from seat sets (71% in FY2023), 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 MSIL's 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 had acquired three plants of Trim India Private Limited in FY2022 to diversify its product profile in the plastics division; it continues to seek similar opportunities to further diversify its product profile.

Extension of support to weak group entities and unrelated segments/businesses – KML has given a corporate guarantee (CG) for a part of the bank facilities availed by group companies. The total amount extended as corporate guarantee, as of March 31, 2023, was ~Rs. 298.9 crore (~Rs. 244 crore to SKH Metals Ltd., ~Rs. 45 crore to SKH Sheet Metal Components Pvt. Ltd., and Rs. 10 crore to Krishna Hanguk Pvt. Ltd.) for the group entities combined (board resolution has approved extension of corporate guarantees up to Rs. 500 crore to these entities). Following the extension of corporate guarantees, the company has been closely tracking the cash flows of the entities (monthly reviews) and intends to support the entities, as and when required. Given the extension of CG for the majority of SKH Metal’s debt, the analytical team has consolidated the financials of SKH Metals with KML. The same is not being done for SKH Sheet Metal Components as the quantum of CG extended to the entity is not material as on date (Rs. 45 crore). The company’s board has also passed a resolution to extend up to Rs. 150 crore of loans to Krisumi Corporation; and currently, it has extended a loan of Rs. 60 crore at 9% interest p.a. to the company, which is expected to be repaid over the next one year. Any further extension of material support to group entities remains a monitorable.

Liquidity position: Strong

KML has a strong liquidity profile, with free cash and liquid investments of ~Rs. 637 crore (invested in debt mutual funds and fixed deposits) as on March 31, 2023, no debt repayment obligations and undrawn fund-based working capital limit (buffer of ~Rs. 50-60 crore). Additionally, the company is expected to generate fund flow from operations of more than Rs. 200 crore in FY2024, which is expected to further increase, going forward. The company has capex plans of ~Rs. 200 crore towards setting up a new plant (FY2024-FY2025), which are likely to be funded through internal accruals and existing cash balances.

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, leading to a deterioration in the company’s capacity utilisation levels and significantly impacting 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 rating 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
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KML. As of March 31, 2023, the company had one subsidiary and one joint venture, which are enlisted in Annexure-II. The scale of operations of the consolidated entity is not material, and the standalone credit profile remains the primary rating driver.

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 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)

Krishna Maruti Limited	KML Consolidated (Reported)		KML Standalone	Consolidated (ICRA Estimated)*	
	FY2021	FY2022	FY2023(Prov.)	FY2021	FY2022
Operating income	2,109.8	2,860.8	3,347.0	2,838.8	3,814.2
PAT	132.8	194.1	225.4	138.3	215.3
PAT (after considering share of profits from JV)	135.9	201.1	225.4	141.4	222.3
OPBDIT/OI	10.5%	10.7%	10.6%	19.1%	19.0%
PAT/OI	6.3%	6.8%	6.7%	6.8%	8.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	0.4	1.0	0.9
Total debt/OPBDIT (times)	0.1	0.2	0.1	1.4	1.0
Interest coverage (times)	52.4	51.1	73.1	8.6	13.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs crore; *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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		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
				September 27, 2023	June 15, 2022	May 21, 2021	Apr 29, 2020
1 Fund-Based/ Non-fund-based	Long term and short term	150.0	--	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [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 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	Long-term/Short-term – Fund based/Non-fund based	NA	NA	NA	150.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	KML 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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