January 23, 2024

KB Autotech India Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BB- (Stable); assigned
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to KB Autotech India Private Limited (KAIPL/the company) factors in the operational and financial flexibility arising from being a wholly owned subsidiary of KB AutoTech Co. Ltd, South Korea (parent), which in turn is part of the larger KBI Group in South Korea. The KBI Group is an established conglomerate in South Korea having businesses in various sectors including automotive, steel, construction, textile, paper and hospitals among others. The company receives periodic technological and operational inputs from the parent, apart from raw material imports for its operations. The debt in KAIPL's books is backed by stand-by letter of credit (SBLC) from the parent, and the parent has committed to infuse equity for the company's capex programme over the medium term. KAIPL also has a reputed customer profile comprising original equipment manufacturers (OEM) in the commercial vehicle (CV) industry including Tata Motors Limited and Daimler India Commercial Vehicles Private Limited. The reasonable market share for its products with customers and its established presence provide comfort. Further, the company has concrete plans to diversify its customer and segment base over the next 1-2 years, which alone with the anticipated improvement in adoption of air conditioners in CVs augurs well for the company.

However, the rating is constrained by the company's average financial profile characterised by modest scale, thin margins and weak accruals and low net worth, amidst relatively high debt levels for its scale of operations. These have resulted in weak capital structure and coverage metrics, stretched liquidity and relatively high refinancing risk. The company has Rs. 26.5 crore principal repayment falling due on September 30, 2024, which is significantly higher than anticipated accruals. However, the company has been historically refinancing its loan before the scheduled maturity date in the absence of adequate accruals for repayment, and ICRA understands from the management that it is expected to continue doing the same over the medium term, till accruals adequate scale up. The company also has healthy financial flexibility arising from its parentage, and all of these mitigate the refinancing risk to an extent. The company's revenues are also exposed to the inherent cyclicality of the CV industry (given than over 95% of revenues are from the segment) and it has high customer concentration with its top 2 customers accounting to over 95% of revenues in H1 FY2024.

Key rating drivers and their description

Credit strengths

Operational and financial flexibility by virtue of being a subsidiary of KB Auto tech Korea - The company is a wholly owned subsidiary of KB AutoTech Co. Ltd, South Korea, which in turn is part of the larger KBI Group in South Korea. The KBI Group is an established conglomerate in South Korea with revenues of over $2 billion and having businesses in various sectors including automotive, steel, construction, textile, paper and hospitals among others. The company receives periodic technological and operational inputs from the parent, apart from raw material imports for its operations. The company also enjoys healthy financial flexibility and lender comfort arising from its parentage. The debt in KAIPL's books is backed by SBLC from the parent, and the parent has committed to infuse equity for the company's capex programme over the medium term.

Established relationships with reputed OEMs – The company caters to reputed OEMs in the commercial vehicle industry including Tata Motors Limited and Daimler India Commercial Vehicles Private Limited. The reasonable market share for its products with customers and its established presence provide comfort. Further, the company has concrete plans to diversify its customer and segment base over the next 1-2 years, and this, along with the anticipated improvement in AC adoption in commercial vehicles augur well for the company.

Credit challenges

Weak debt metrics and high refinancing risk – The company's debt level stood at Rs. 26.5 crore as on September 30, 2023 (comprising entirely of external commercial borrowings availed for capex for a greenfield unit in 2015) and is relatively high for the scale of operations. The relatively high debt levels along with weak accruals and low net worth have resulted in stretched capital structure and coverage metrics. The debt metrics are expected to remain weak in the next 1-2 years at least. The relatively low accruals vis-à-vis the repayment obligation on ECB (Rs. 26.5 crore repayment falls due on September 30, 2024) result in relatively high refinancing risk. However, the company has been historically refinancing its loan before the scheduled maturity date in the absence of adequate accruals for repayment. Further, ICRA understands from the management that it is expected to continue doing the same over the medium term, till accruals adequate scale up. The company also has healthy financial flexibility arising from its parentage, and all of these mitigate the risk to an extent.

Modest scale of operations and thin operating margins – The company has modest scale of operations with revenues of Rs. 69.4 crore in FY2023 and Rs. 57.1 crore in H1 FY2024, despite healthy growth in the recent years. The modest operating income limits benefits arising from economies of scale. Further, its operations are largely restricted to assembly, resulting in limited value addition and thin operating margins. The company has reported operating margins of 5.1% and 5.0% in FY2023 and H1 FY2024 respectively. The net margins also remained relatively thin at 1.8% in H1 FY2024, impacted by forex losses and interest costs. The extent of improvement in scale and margins going forward, in the light of the company's new orders, cost-optimisation measures and operating leverage benefits, remain to be seen.

Vulnerability of revenues to cyclicality inherent to the CV industry; high customer concentration risk – The company derives over 95% of its revenues from the CV segment currently, exposing its revenues to the inherent cyclicality of the segment. Further, over 95% of revenues were from its top 2 customers in H1 FY2024, exposing its revenues to risks arising from lower orders from the customers or loss of customers to competition. However, the company's plans to diversify its revenue base through addition of new customers in different auto sub-segments mitigates the risk to an extent.

Liquidity position: Stretched

KAIPL's liquidity is stretched with minimal cash and bank balances of Rs. 6.3 crore as on September 30, 2023. It does not have sanctioned working capital lines. It has Rs. 26.5 crore ECB repayment falling due on September 30, 2024. However, the company has been historically refinancing its loan before the due date in the absence of adequate accruals for repayment. Further, ICRA understands from the management that it is expected to continue doing the same over the medium term, till accruals adequate scale up. The company has cumulative capex plans of ~Rs. 30-35 crore over FY2025-FY2026 relating to new product introduction, which is expected to be funded through equity infusion from parent, beyond internal accrual generation.

Rating sensitivities

Positive factors – ICRA could consider a rating upgrade if the company is able to grow improve its revenues and operating profit margins, resulting in improvement in debt protection metrics and liquidity position on a sustained basis. Specific metrics that could lead to a rating upgrade include Debt/OPBITDA less than 4.0 times, on a sustained basis.

Negative factors – Negative pressure on rating could arise from sustained weak performance resulting in low accruals, weak debt metrices and liquidity position. Inability to refinance borrowings in a timely manner or absence of timely and adequate fund infusion from the parent, when required, leading to weakening of liquidity position would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	- Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

KB Auto tech India Private Limtied was incorporated in September 2010 and is primarily engaged in the sale of air conditioners for commercial vehicles. The company is a subsidiary of KB AutoTech Co. Ltd, South Korea, which in turn is part of the larger KBI Group in South Korea. The KBI Group is an established conglomerate in South Korea with revenues of over $2 billion and having businesses in various sectors including automotive, steel, construction, textile, paper and hospitals among others. The company derives over 95% of its revenues from CV segment currently and over 95% of revenues were from its top 2 customers in H1 FY2024. The company sells its products only in the domestic market and has its factory in Thiruvallur, Tamil Nadu. Further, it also owns a factory premises in Pune, which has been leased out to another auto component manufacturer currently.

Key financial indicators (audited)

Standalone (Rs. In crore)	FY2022	FY2023
Operating income	40.6	69.4
PAT	-0.1	-2.1
OPBDIT/OI	5.4%	5.1%
PAT/OI	-0.1%	-3.1%
Total outside liabilities/Tangible net worth (times)	7.1	8.4
Total debt/OPBDIT (times)	12.1	8.1
Interest coverage (times)	1.8	1.0

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 23, 2024	-	-	-
1	Issuer Rating	Long term	-	-	[ICRA]BB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer Rating**	NA	NA	NA	-	[ICRA]BB- (Stable)

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.

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.

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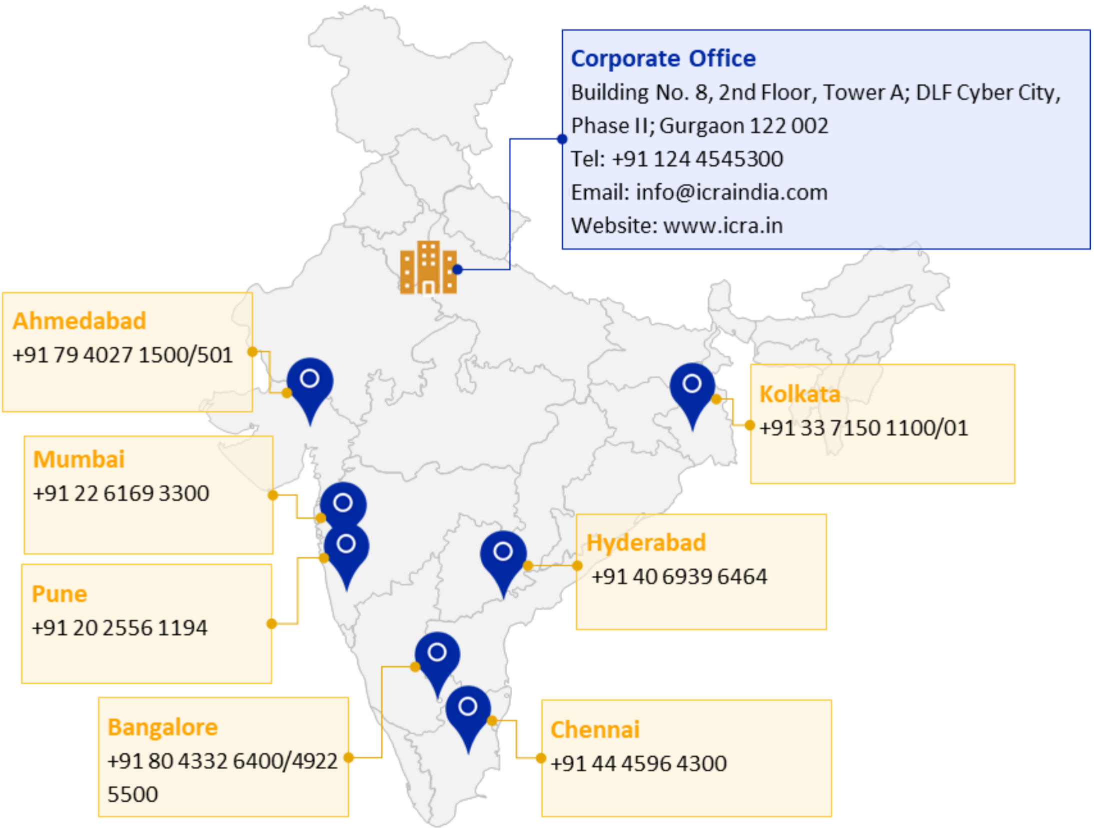

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