July 01, 2024

Krishna Penstone Automotive Private 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	21.00	21.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	**21.00**	**21.00**	

Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings favourably factors in Krishna Penstone Automotive Private Limited (KPAPL) (erstwhile Krishna Ishizaki Auto Ltd.) 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), the market leader in the passenger vehicle (PV) industry, and Honda Cars India Limited (Honda). KPAPL gets 65-70% share of business from MSIL and ~90% from 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 KPAPL's strong financial risk profile with debt-free status and strong liquidity (reflected in the cash and liquid investments of ~Rs. 91.4 crore as on March 31, 2024). The company has reported strong return indicators and profitability indicators over the years, benefitting from the backward integration of critical components such as actuator line, glass-processing line and induction moulding, besides the benefits of operating leverage.

ICRA notes that the company has planned a capex outlay of ~Rs. 190 crore over the next three years (evenly spread out) towards enhancing capacity at its existing plants and setting up a new plant in Kharkhoda (Haryana). The capex is expected to be funded through internal accruals and existing cash balances and liquid investments, thereby limiting any dependence on external debt. The ratings favourably factor in KPAPL's technological support from Penstone Corporation (Penstone) that holds a 50% equity stake in the company. Penstone is a leading Japanese rear-view mirror designer and manufacturer of various PV OEMs. Technological support from Penstone underpins the company's ability to adapt to the changing technological requirements of the Indian OEMs, thus allowing it to maintain its share of business with MSIL and Honda, and leverage its capabilities to other OEMs for new business.

The above strengths are partially offset by the increased client and segmental concentration risks faced by KPAPL with ~90% of its revenues generated from MSIL. The company also faces the risk of concentration with the PV segment being its only end user. The customer concentration risk is mitigated to an extent by KPAPL's healthy share of business 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 of pandemic-related lockdowns. This is likely to ensure healthy revenue visibility for KPAPL 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 its parent entity and established relationships with MSIL and Honda, helping it maintain a healthy credit profile over the medium term.

Credit strengths

Healthy share of business for ORVMs/IRVMs with MSIL – KPAPL is the leading supplier of ORVMs and IRVMs to MSIL and Honda. Overall, the company gets 65-70% share of business from MSIL and 90-100% from Honda. Over the years, it has been able to gain business for supplies of ORVMs and IRVMs for the new models launched by the OEMs. This healthy share of business is expected to continue, going forward, on the back of incremental business from the OEMs, providing 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 strong return indicators (core RoCE of 45-50% in FY2024), aided by strong profit margins and high asset sweating. Further, with healthy cash flow generation and low capital expenditure requirement, KPAPL has maintained almost negligible debt position over the years, along with sizeable cash and liquid investments (~Rs. 91.4 crore as on March 31, 2024). The company plans to enhance capacity at its existing plants and is also considering setting up a new plant at Kharkhoda, Haryana. The capex is planned to be funded through internal accruals and existing cash and liquid investments, and thus the financial risk profile is expected to remain healthy.

Technological support from parent entity – KPAPL receives technological support from its parent company, Penstone, a leading Japanese auto component company involved in designing and manufacturing rear-view mirrors to various global OEMs. Technological support from Penstone aids KPAPL 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 level of backward integration – The company has high level 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 mechanism for some of its models. This enables higher value addition, which helps it in maintaining a competitive cost structure and stable operating margins**.**

Credit challenges

Exposed to client, segment and geographical concentration risks – KPAPL generates a large share (85-90%) 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 KPAPL's strong share of business from the OEM (65-70%). 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.

Exports remain constrained because of the logistics-unfriendly nature of the parts KPAPL manufactures, leading to a lack of geographical diversity, as exports have remained negligible over the past few years. This exposes KPAPL's revenues to the fluctuations in demand prevailing in the domestic PV industry**.**

Limited scale of operations with a single product line – The company's scale of operations remains at a moderate level, with revenues of ~Rs. 386.3 crore in FY2024. KPAPL is a single-product company and primarily supplies ORVMs and IRVMs to select OEMs and thus, it is constrained by a niche market segment. Nevertheless, the company's business position remains strong as the second largest PV mirror manufacturer in the domestic market**.**

Liquidity position: Strong

KPAPL's liquidity remains strong, characterised by healthy cash flow from operations (Rs. 40-50 crore expected in FY2025), cash and liquid investments of ~Rs. 91.4 crore and a working capital buffer of ~Rs. 12 crore as on March 31, 2024. The company has planned capex outlay of ~Rs. 190 crore over the next three years to expand the capacity at its existing plants and setting up a new facility in Kharkhoda, Haryana. It is expected to meet its capex requirements from internal accruals and existing cash/liquid investments and does not have any debt repayment obligation. Moreover, the company has healthy financial flexibility for being a 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 KPAPL's ratings in the medium to long-term if it is able to scale up operations through a sustained 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 share of business with MSIL 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 Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Krishna Penstone Automotive Private Limited Auto Ltd. (KPAPL) is a part of the Delhi-based Krishna Group, a leading automotive component supplier in the domestic market. KPAPL is a major supplier of outside rear-view mirrors and inside rear-view mirrors (ORVMs and IRVMs) to Maruti Suzuki India Limited (MSIL). It supplies the same to Honda Cars India Ltd. (Honda) as well. The company's share of business with MSIL stands at 65-70% and has improved over the past few years, aided by new business awarded by the OEM. The company is a 50:50 joint venture (JV) between Mr. Ashok Kapur of the Krishna Group and Penstone Corporation, Japan. It has a technical knowledge sharing agreement with Penstone, which provides it with access to technology, design, and manufacturing capabilities. KPAPL has two plants, one in Binola (Haryana) with a production capacity to cater up to 10 lakh cars per annum , and the other one in Dalsana (Gujarat), with a production capacity to cater up to 5 lakh cars per annum.

Key financial indicators (audited)

KPAL (Standalone)	FY2022	FY2023	FY2024*
Operating Income	329.6	393.7	386.3
PAT	35.4	48.4	43.5
OPBDIT/OI	19.5%	20.3%	17.6%
PAT/OI	10.7%	12.3%	11.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	-
Total debt/OPBDIT (times)	0.2	0.1	-
Interest coverage (times)	35.9	50.0	446.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					July 01, 2024	May 25, 2023	-	Mar 10, 2022
1	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.

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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