October 01, 2024

Kems Forgings Limited: Ratings reaffirmed and removed from Issuer Non- Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based – Cash Credit	27.65	27.65	[ICRA]BBB (Stable); Rating Reaffirmed and Removed from Issuer Not Cooperating
Short term –Non fund based	1.00	1.00	[ICRA]A3+; Rating Reaffirmed and Removed from Issuer Not Cooperating
Total	**28.65**	**28.65**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has removed Kems Forgings Limited's (KFL) ratings from the Issuer Not Cooperating category as the company has now started cooperating based on fee.

The rating reaffirmation factors in the established track record of KFL and the extensive experience of its promoters in the automotive industry, enabling its established association with its key customers, which includes various reputed players and market leaders from automotive, defence, engineering, construction equipment as well as oil and gas industries. The company reported a modest revenue growth of 4.3% with revenues of Rs. 397.0 crore in FY2024 due to a large base of FY2023 (~31% revenue growth) and a decline in commodity prices impacting realisations. KFL's operating margins witnessed contraction to 7.3% in FY2024 from 8.1% in FY2023 on account of modest revenue growth and continued increase in fixed expenses such as employee costs.

The company is expected to witness relatively higher revenue growth in FY2025, supported by a stable demand outlook from end industries, onboarding of new customers and the introduction of new products etc. While the company's debt metrics moderated slightly in FY2024 (TD/OPBDITA of 31. times as on March 31, 2024, compared to 2.9 times on March 31, 2023), the same is expected to improve in FY2025, supported by higher revenue growth and expected margin enhancements, following the stabilisation in commodity prices.

The ratings, however, remain constrained by the vulnerability of KFL's profitability to adverse fluctuations in steel prices, as it generally passes on the increased prices to customers with a time lag. ICRA notes that the company's limited pricing power, owing to the fragmented nature and intense competition within the industry, continues to impact its operating margins. KFL's operations are also exposed to moderate customer concentration risk, with its top 10 customers accounting for ~57% of its revenue in FY2024. However, established relationships with its key customers mitigate the risk to an extent.

The Stable outlook on the long-term rating factors in ICRA's expectation that the company will continue to report healthy revenue growth, driven by steady demand for its products and long-term relationships with its key customers, supporting its credit profile.

Key rating drivers and their description

Credit strengths

Established track record of promoters in forging industry – Kems Forgings Limited was incorporated in 1970 as Sree Lakshmi Industrial Forge and Engineering Limited. It was acquired by the existing promoters in 1990 and was later renamed Kems Forgings Limited in 2010. Mr. S.K. Gandhi (Chairman) & family, the company's promoters, have four decades of experience in the steel industry through KFL and its group entities, Kems Auto Components Limited (KACL) and Southern Steel Forgings (SSF). KFL's established track record in the forged components segment and its experienced management supported it in forming strong and established relationships with its key customers and suppliers.

Established relationships with existing clientele and addition of new reputed clients – KFL's long-term business associations with its reputed original equipment manufacturers (OEMs) as well as tier-1 and tier-2 suppliers in the automotive and construction equipment segment support its business stability. KFL's customer profile includes renowned players and market leaders from automotive, construction, oil and gas as well as engineering segments. Moreover, the company's ability to onboard new customers and develop new components, backed by its solid R&D activities, coupled with stable demand from its end industries, helped KFL to maintain strong relations with clients and generate healthy orders.

Credit challenges

Vulnerability of profitability to adverse fluctuations in raw material prices – KFL's operating margins are exposed to volatility in steel prices. The company has certain arrangements in place to largely pass on the raw material prices to its customers, which protect the profitability to a certain extent. However, the operating margins remain susceptible to inflationary pressures regarding other operational overheads, which cannot be fully passed on as demonstrated by the contraction of operating margins in FY2024.

Intense competition and fragmented industry structure – The company operates in a highly competitive industry, characterised by intense competition from various domestic and global players. Also, given the low entry barriers in the forging industry, the pricing power is limited, resulting in moderate profitability.

Moderate customer concentration risk – The company's customer concentration risk remains moderate with its top 10 customers historically contributing ~55-60% to its total revenue. Although the risk is manageable to a certain extent due to its sustained and resilient business relationship with fundamentally strong clients and greater capability of acquiring new clients owing to quality product offerings. KFL is also exposed to the cyclical nature of the automobile industry, from which the company historically derives ~60-65% of its revenues.

Liquidity position: Adequate

The liquidity position of KFL is adequate, supported by available undrawn bank lines of Rs. 3.9 crore and minimal cash balances as on June 30, 2024. Its average utilisation of the working capital limits was high at ~86.6% in the 12-month period ended June 2024. KFL has capex plans of Rs. 5 crore in FY2025, and has debt repayment liabilities of Rs. 12.21 crore and Rs. 9.71 crore over FY2025 and FY2026, which are expected to be serviced through its internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade KFL's ratings if the company demonstrates healthy growth in operating income (OI) and improvement in profit margins on a sustained basis, leading to improved debt protection metrics. Specific credit metrics that could lead to an upgrade in ratings include total debt/OPBDITA of less than 2.3 times on a sustained basis.

Negative factors – Pressure on KFL's ratings may arise if any significant reduction in the company's revenues and profitability weakens the debt coverage indicators. The ratings may be downgraded if there is any further stretch in the company's liquidity position or any sizeable debt-funded capital expenditure weakens the capital structure or debt coverage indicators. Specific credit metrics that could lead to a downgrade in ratings include DSCR of less than 1.4 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	Standalone

About the company

Incorporated in 1970 as Sree Lakshmi Industrial Forge and Engineers Limited, KEMS Forgings Limited (KFL) was acquired from the erstwhile promoters in 1990. KFL is a closely held company, engaged in manufacturing steel forgings primarily catering to the automotive and construction equipment industries. It is a TUV and ISO 9001:2015 certified company, with manufacturing facilities at Attibele and Hoskote in Karnataka and at Sriperumbudur in Tamil Nadu, having a combined installed capacity of 51,000 MT (metric tonnes) per annum as on date. KFL is part of the Gandhi Group, established in the year 1964 as a steel marketing company in Calcutta. Mr. S K Gandhi, the managing director and his family and group companies hold a 100.0% stake in the company.

Key financial indicators

	FY2023	FY2024*
Operating income (in Rs. crore)	380.8	397.0
PAT (Rs in crore)	15.3	10.1
OPBDIT/OI (%)	8.1%	7.3%
PAT/OI (%)	4.0%	2.6%
Total outside liabilities/Tangible net worth (times)	1.6	1.7
Total debt/OPBDIT (times)	2.9	3.1
Interest coverage (times)	4.7	3.9

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3">Instrument</th><th colspan="4">Current (FY2025)</th><th colspan="6">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th colspan="2">FY2025</th><th colspan="2">FY2024</th><th colspan="2">FY2023</th><th colspan="2">FY2022</th></tr>
<tr><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td rowspan="2">Cash Credit</td><td rowspan="2">Long Term</td><td rowspan="2">27.65</td><td>01-Oct-2024</td><td>[ICRA]BBB (Stable)</td><td>07-Mar-2024</td><td>[ICRA]BBB (Stable); ISSUER NOT COOPERATING</td><td>07-Apr-2022</td><td>[ICRA]BBB (Stable)</td><td>02-Apr-2021</td><td>[ICRA]BBB (Stable)</td></tr>
<tr><td>-</td><td>-</td><td>28-Apr-2023</td><td>[ICRA]BBB (Stable)</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Non fund based</td><td rowspan="2">Short-term</td><td rowspan="2">1.00</td><td>01-Oct-2024</td><td>[ICRA]A3+</td><td>07-Mar-2024</td><td>[ICRA]A3+; ISSUER NOT COOPERATING</td><td>07-Apr-2022</td><td>[ICRA]A3+</td><td>02-Apr-2021</td><td>[ICRA]A3+</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based – Cash Credit	Simple
Short term –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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	27.65	[ICRA]BBB (Stable)
NA	Non-fund Based	NA	NA	NA	1.00	[ICRA]A3+

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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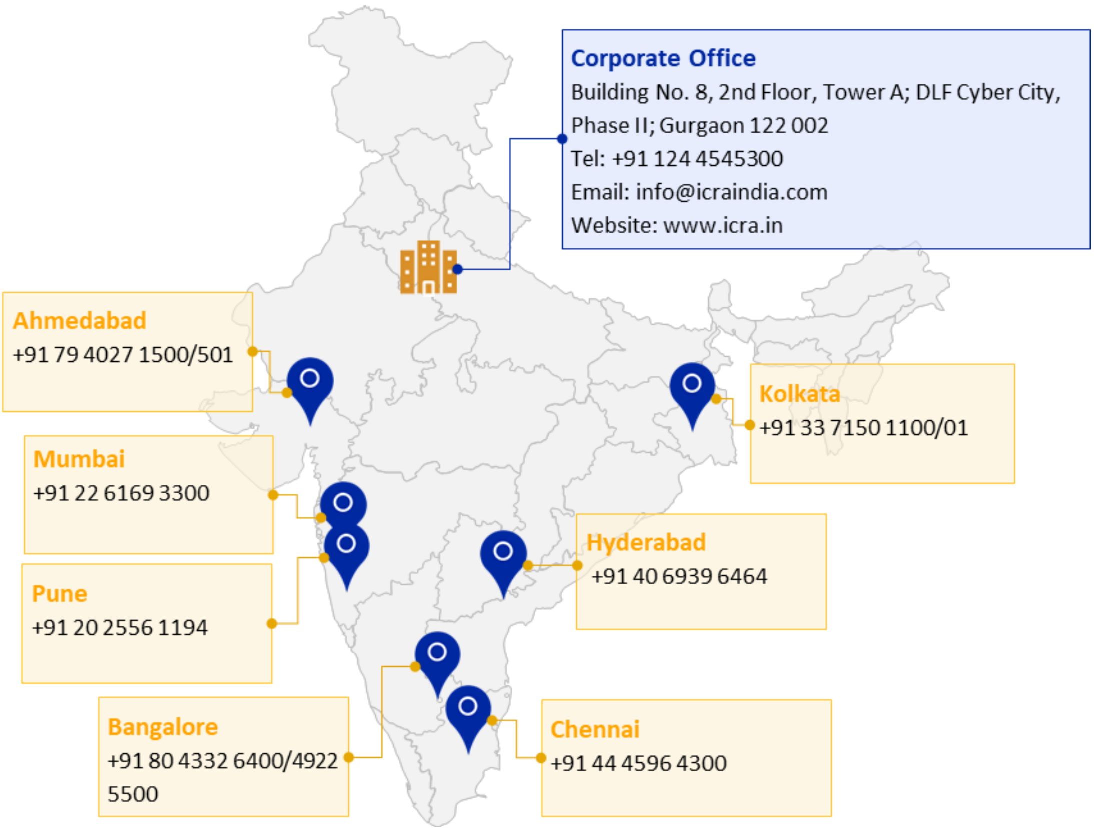

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