

## Kay Jay Forgings Pvt.Ltd.

February 28, 2019

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	[ICRA]A-(Stable); Assigned
<b>Total</b>	<b>NA</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings favourably factor in KJFPL's established relationship with its major customer - TVS Motors as reflected by its strong share of business with the OEM for forged engine components, extensive experience of the promoters spanning over 40 years in the two-wheeler (2W) industry and expectations of improvement in credit indicators supported by healthy cash accruals, low planned capital expenditure and repayment of existing debt.

KJFPL manufactures forged components such as crankshaft, connecting rod, lever kick start among others for two-wheeler OEMs and tier I suppliers. TVS Motors is KJFPL's largest customer contributing 70% of the total revenues in 9m FY 2019. In addition, the company is also a supplier to Hero Motocorp (HMCL; [ICRA]AAA(Stable)/A1+), directly as well as via Bajaj Sons Limited and Bajaj Motors Limited. KJFPL is one of the leading suppliers of forged components to TVS Motors and has been associated with latter for the past 35 years and has managed to consistently gain share of business on back of regular investments in capacities and maintaining quality standards.

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 and aided revenue growth. The improvement in content per vehicle has also been supported by increasing share of machined components being supplied to TVS Motors. The company has recently added new assembly lines to supply entire crank shaft assemblies instead of only crank shaft and connecting rods. KJFPL is the sole supplier of crankshaft assemblies and lever kick start to TVS and has approximately 100% share of business for crankshafts.

Despite strong business position, the assigned rating is constrained by the company's high customer and industry concentration and relatively weaker profitability metrics vis-a-vis its peers in the forging industry. KJFPL derives close to 95% of its total revenues from the domestic two-wheeler industry because of which its sales are highly sensitive to growth prospects of the two-wheeler industry. Moreover, the company generates 70% of its business from a single client. Although the company is trying to de-risk its business profile by expanding its presence with other OEMs, especially in the exports business but the same continues to account for around 5% of its turnover at Rs. 20 crore in 9m FY2019.

KJFPL's EBITDA margins at 7.7% (H1 FY2019) are lower than other forging companies which weakens its RoCE and coverage indicators. However, the company's debt levels are expected to decline in the near-term because of limited capital expenditure, healthy cash accruals and repayment of existing term loans. As a result, ICRA expects the company's credit indicators to improve in the near-term.

Although ICRA expects the customer concentration to remain high in the near term, KJFPL benefits from the high degree of retention for engine component suppliers because of the critical nature of the components because it is a leading supplier of crank shaft and crank shaft assemblies for TVS Motors with 80% share of business.

## Outlook: Stable

ICRA believes KJFPL will continue to benefit from its association with TVS Motors and increase in content per vehicle because of a shift in its product portfolio from forged components to entire assemblies. The outlook may be revised to 'Positive' if the company significantly improves its financial profile by strengthening its coverage and capitalization indicators. The outlook may be revised to 'Negative' if the credit indicators decline substantially or if it loses significant share of business with TVS.

## Key rating drivers

### Credit strengths

**Leading supplier of forged components for the two-wheeler industry** – KJFPL is a leading supplier of forged components to the two-wheeler industry with strong share of business with its major customer viz. TVS Motors. The company is also a supplier of forged components to HMCL. It has an established customer base and enjoys repeat business and high share of business for its products.

**Long established relationship and healthy share of business with TVS Motors** - The company enjoys approximately 80% share of business with TVS Motors and is the sole supplier of crankshaft assemblies and lever kick start for around 20 models of the OEM. KJFPL ranks among the top suppliers of TVS Motors and ranks highest in terms of quality and service.

**Increasing share of value added products in product portfolio** – The share of value added products such as entire crankshaft assembly has increased in KJFPL's product portfolio which has supported the company's revenue growth. Additionally, the machining content has also increased in the products supplied by KJFPL which further supported revenue growth and margins.

**Experienced promoters with over 40 years of experience in the industry** – KJFPL's promoters have successfully managed the company for the past thirty years and have developed strong relationship with the company's customer base. The promoters have regularly infused funds into the company in the form of unsecured loans to support the company's expansion.

### Credit challenges

**High customer and industry concentration with 70% of sales from TVS Motors and ~95% of sales from the 2W industry** - The company's sales are highly sensitive to the underlying growth in the domestic two-wheeler industry and TVS in particular.

**Company's profitability is lower than its peers in the forging industry** – KJFPL's profitability indicators are significantly lower than other forging companies which limits the company's coverage indicators, as indicated by interest coverage of 3.7x and debt service coverage ratio of 1.5x (FY2018). However, the profitability is expected to marginally improve in the near term because of several initiatives being taken by the company to increase plant efficiency and reduce overhead costs.

**Export business continues to remain a small contributor to the company's business** - The company exports steering system yokes to Robert Bosch's plants in Europe and China. This business continues to be a small contributor to the overall revenue growth with only 5% of revenues in 9m FY2019 coming from this business. However, the management expects healthy growth in the export business in the near term as it has received orders to supply to other plants of Robert Bosch.

### Liquidity Position:

Although KJFPL consistently generates positive retained cash flow supported by healthy profitability indicators, it had to rely on external borrowings to fund its capital expenditure plans. However, ICRA does not foresee any liquidity concerns as the company's internal accruals and availability of working capital limits (average utilization of 70%) will be sufficient to meet the debt repayment obligations. Moreover, KJFPL's low planned capital expenditure and expectations of profit margin expansion will further support its liquidity profile.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on 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. The company was established in 1988 in Ludhiana and at present has four units in Ludhiana and two units in Hosur. The company's major customer (~65% of total sales) is TVS Motors to which it supplies various forged components such as crank shaft, connecting rod, petrol tank, brake pedal assembly, etc. The company is also involved in supplying plate bearing sets to tier I suppliers of Hero Motocorp Limited. The company's domestic sales are mostly to 2W OEMs and tier I suppliers of 2W OEMs. In addition, the company also exports steering system yoke to Robert Bosch in France, USA and China. The company is promoted by Mr. G.K. Kothari (81.3% stake in the company) who is also the Managing Director of the company. The promoter family members are actively involved in the day to day management of the company.

### Key financial indicators (audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	320.4	396.2
PAT (Rs. crore)	3.5	9.9
OPBDIT/ OI (%)	7.4%	8.2%
RoCE (%)	8.9%	13.0%
Total Debt/ TNW (times)	1.6	1.7
Total Debt/ OPBDIT (times)	4.0	3.7
Interest coverage (times)	2.9	3.7
NWC/ OI (%)	20.1%	15.7%

### 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 last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Feb 2019	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Issuer Rating	Issuer Rating	NA	NA	[ICRA]A-(Stable)	-	-	-

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]A- (Stable)

Source: Kay Jay Forgings Pvt.Ltd.

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