

January 15, 2024

Munjal Kiriu Industries Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits Term Loan	38.38	38.38	[ICRA]A+(Stable); Reaffirmed
Long-term Fund-based Limits Cash Credit	60.00	60.00	[ICRA]A+(Stable); Reaffirmed
Short-term Interchangeable Limits**	(70.0)	(70.0)	[ICRA]A1; Reaffirmed
Short-term Non-fund Based limits	5.25	5.25	[ICRA]A1; Reaffirmed
Total	103.63	103.63	

*Instrument details are provided in Annexure-1; **Sub-limit of cash-credit facility

Rationale

The ratings reaffirmation for Munjal Kiriu Industries Private Limited (MKIPL) factors in an expectation of continuation of its strong operating performance, aided by an established track record in the casting industry. The steady operating profile provides comfort regarding the company's ability to continue to generate healthy cash flows, going forward, which would help it maintain strong credit metrics. The ratings further continue to factor in its strong business profile as a leading supplier of ferrous cast components such as brake disc and drums to passenger vehicle (PV) original equipment manufacturers (OEMs) in India, and its strong parentage, being a joint venture (JV) between Kiriu Corporation (Kiriu) and Hero Cycles Limited (HCL).

The performance of the company remained healthy as it recorded a growth in the sales tonnage volume by 29% in FY2023 and 8% in H1 FY2024; it closed the year with an YoY growth of 41% and 7% in sales in FY2023 (~Rs. 617 crore) and H1 FY2024 (~Rs. 317 crore), respectively, supported by strong demand in the PV industry. Although the company sales from consumer durable clients in the non-auto segment are expected to remain subdued in FY2024 on a YoY basis due to slowdown in sales of ACs, refrigerators etc., its growth momentum remains supported by healthy demand from MSIL and further new business gains by the company in the auto segment. Its operating margin improved slightly to 20.4% in FY2023 vis-à-vis 19.8% in FY2022, aided by higher operating leverage. Going forward, its margins are expected to remain healthy, supported by easing in steel prices, continued cost-control measures and operating leverage.

MKIPL enjoys a majority share of business (SOB) with OEMs like Maruti Suzuki India Ltd (MSIL), Honda Cars India Limited (HCIL) and Renault Nissan Automotive India Pvt. Ltd. While the company faces customer concentration risk on account of its high dependence on MSIL (contributed ~64% of revenues in FY2023) and further reduction in sales from Renault Nissan in the current fiscal, the same is mitigated to an extent by the OEM's market leadership in the domestic PV market and MSIL's established relationship with the company. Further, the company has received new orders from Mahindra and Mahindra (M&M) for break discs for a few models (including its EV launch), with supplies expected to commence in H1 FY2025; the same is likely to support its diversification efforts. ICRA further notes that MKIPL's business is characterised by high capital intensity, while operations are also energy intensive. Thus, to improve its profitability indicators, the company has been making efforts to improve capacity utilisation at its plants, as well as undertake other process improvements so as to derive operational efficiencies through higher yields, lower rejection rates, increased throughput, etc.

MKIPL has moderate capex plans of ~Rs 60-70 crore in the current fiscal and sizeable debt-funded investment plans towards capacity expansion at its Gujarat plant, at an outlay of ~Rs. 250 crore during FY2025 - H1 FY2026. While the company recorded improvement in credit metrics with Total Debt/OPBDITA and TOL/TNW of 0.5 times each in FY2023 (TD/OPBITDA of 1.6 times

in FY2022), the debt obligations are expected to increase materially to fund the capex plans over the near term, hence limiting an improvement in its credit metrics.

The Stable outlook on the long-term rating reflects ICRA's opinion that MKIPL would continue to record healthy operational and financial performances, aided by its strong parentage and healthy market position with the various OEMs. The support extended by the promoters offers comfort regarding its ability to meet any temporary cash flow mismatches.

Key rating drivers and their description

Credit strengths

Established supplier of automotive brake discs and drums in the domestic market, healthy business with major PV OEMs – MKIPL is a leading player in the domestic market with a market share of ~35-40% for automotive ferrous casting-based braking products, enjoying ~75% SOB with MSIL, and more than 95% with other clients like HCL and Renault Nissan. In addition to supplying brake discs and drums which cumulatively contributed ~73% of its revenues in FY2023, the company has expanded into supplying other ferrous cast components like flywheels and knuckles over the years, improving its business prospects. Overall, MKIPL is estimated to be the leading domestic player in the supply of automotive brake discs and drums.

Focus on process improvements supports sustained improvement in operational efficiencies – With ferrous castings being a capital-intensive business, MKIPL has focussed on improving operational efficiencies at its manufacturing facilities, by controlling rejection rates and power consumption, while improving capacity utilisation and yields over the years. The continued focus on improving these factors have supported the company's operating profitability, even during periods of rising commodity and power costs.

Strong parentage supports business prospects, technological capabilities and financial flexibility – Being a 51:49 JV between Kiri, Japan, and HCL, MKIPL has access to technical support from the JV partners. Further, its Japanese parentage improves its business prospects with Indian subsidiaries of Japanese OEMs like Suzuki, Nissan, Honda, etc. In addition to the operational and technical support, the JV partners have also supported the entity financially over the years. During FY2011-FY2016, the JV partners infused an aggregate amount of Rs. 140 crore into the company and HCL also extended ICDs of Rs. 15 crore during FY2020-FY2021 to meet its capex and debt repayments. Additionally, MKIPL had availed debt at competitive rates in the past, supported by the corporate guarantee from Sumitomo Corporation on its term loan. Although the sustained improvement in MKIPL's scale of operations and reduction in its debt levels have supported its standalone financial performance over the last two fiscals, as evident from the dividend payout of ~Rs. 88 crore to its parent entities in CY2023. ICRA expects the JV partners to support the company in bridging any temporary cash flow mismatches, if required.

Credit challenges

Susceptible to any downturn in demand in the Indian PV market – About 85% of the company's revenue comes from PV OEMs and the remaining from consumer durable companies. During FY2020-FY2021, MKIPL's revenues and earnings were impacted by the contraction in the domestic PV industry and pandemic-related disruptions, despite incremental supplies from its facility in Gujarat. However, the company recorded YoY growth of 41% in its revenues in FY2022 and FY2023, supported by healthy underlying demand in the PV industry. While its revenues remain susceptible to any demand downturn in the PV market, the revenues are expected to grow on a sustained basis in the near term with a steady demand for PVs.

Large debt-funded capex plans to constrain improvement in return indicators and credit metrics – MKIPL invested in its second manufacturing facility in Gujarat with a current casting capacity of 28,000 MTPA, at a total project cost of Rs. 160 crore, the first two phases of which have been commercialised. ICRA notes that the company has further capacity expansion plans at this plant with debt-funded capex of ~Rs 220-250 crore to be incurred during FY2025 - H1FY2026 and ~70% of the capex is likely to be funded by debt. With ferrous casting operations normally having a long gestation period, the plant is likely to take some time to ramp-up to optimal levels. With sizeable additional debt to be availed towards the capex and material repayment obligations arising over the medium term, a material improvement in credit metrics is likely to remain constrained. However,

the management remains confident of a fast ramp up in revenue generation from the incremental capacity, aided by confirmed orders from some OEMs.

Earnings susceptible to fluctuations in energy cost due to power-intensive nature of casting operations – With casting operations typically being power-intensive in nature, MKIPL’s profitability metrics and cash flows are linked to the trend in power costs. In the past, the company’s profitability saw significant volatility driven by the trend in average power rates. However, the company’s efforts to enter into renewable power sourcing arrangements as it has tied up with CleanMax in Gujarat, and its consistent efforts in reducing power consumption, offer comfort.

Liquidity position: Adequate

MKIPL’s liquidity position remains adequate, supported by healthy cash flow from operations and average unutilised working capital limits of ~Rs. 46 crore for the past eight months ending November 2023. The debt repayment obligations are at ~Rs. 12 crore in H2-FY2024 and ~Rs. 28 crore in FY2025 towards the existing loans. The company has sizeable capex plans in FY2025-FY2026 towards capacity expansion at its Gujarat plant, which are likely to be met through a mix of debt and internal accruals. ICRA expects the company to meet its repayment obligations from the available liquidity buffers and cash flow generation. Further, in case of any temporary shortfall in meeting its requirements, ICRA expects the promoters to extend support in the form of equity infusion or ICDs, as seen earlier.

Rating sensitivities

Positive factors – Despite being a market leader in the automotive brake disc and drum segment, MKIPL’s business profile is characterised by high concentration on the domestic PV segment. The company’s ability to, therefore, diversify its business profile by foraying into new products or automotive segments will be considered favourably for a rating upgrade. In addition, improvement in the financial risk profile by de-leveraging the balance sheet and sustained strengthening of credit metrics remain critical for an upward rating revision.

Negative factors – Pressure on the ratings could arise in case of weaker-than-expected support from the parent companies, or deterioration in the credit profiles of the parent companies or weakening of the financial risk profile and credit metrics, with TD/OPBITDA above 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Parent Companies: Hero Cycles Limited and Kiriu Corporation (ultimate parent company is Sumitomo Corporation, Japan) ICRA takes comfort from the consistent track record of timely financial support extended by the JV partners to MKIPL, as well as the bank lines guaranteed earlier by Sumitomo Corporation, which highlights its commitment towards the company. Accordingly, we expect them to continue to support MKIPL, should the need arise, given the strategic importance it holds.
Consolidation/standalone	The ratings are based on the standalone financial profile of the company, and factors in support from the JV partners.

About the company

MKIPL, incorporated in December 2007, was formed when Hero Motors Limited (HML) hived off its foundry business to form a joint venture with Kiriu Corporation, Japan (subsidiary of Sumitomo Corporation, Japan). In February 2011, Kiriu and its ultimate parent company, Sumitomo, increased their stake in the company to 51% from 33% by infusing Rs. 45 crore and also

acquiring stake from HML for a consideration of Rs. 75 crore. In FY2017, when HML was demerged into a division of Hero Cycles Limited, HML's investment in MKIPL was transferred to Hero Cycles.

MKIPL manufactures ferrous castings for the automotive and consumer durables industries. The company manufactures brake discs, drums, flywheels and certain other automotive components for PV OEMs in the automotive sector. The company is one of the leading manufacturers of brake discs and drums for the PV industry in India. In the non-automotive sector, the company mainly manufactures non-machined cylinder blocks and crank cases, which primarily find application in compressors for consumer durables. The non-automotive segment contributed ~15% to its FY2023 revenue. The manufacturing facilities of the company are at Manesar, Haryana, with a foundry capacity of 56,000 MT per annum (increased from 48,000 MTPA), and at Mandal, Gujarat with 28,000 MT per annum (increased from 18,000 MTPA).

Key financial indicators (audited)

MKIPL	FY2022	FY2023	8M FY2024 (Provisional)
Operating Income (Rs. crore)	438.0	617.4	417.4
PAT (Rs. crore)	31.3	58.1	44.2
OPBDIT/OI (%)	19.8%	20.4%	22.0%
PAT/OI (%)	7.2%	9.4%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.5	NA*
Total Debt/OPBDIT (times)	1.6	0.5	NA*
Interest Coverage (times)	8.1	17.5	22.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NA*: balance sheets figure not available for prov. nos.

Note: Amount in Rs. crore; All calculations are as per ICRA research; Source: Company, ICRA Research

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 Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 15, 2024	Nov 07, 2022	Sep 09, 2021	Oct 22, 2020
1 Long Term Fund-based Limits Term Loan	Long-term	38.38	11.42	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Long Term Fund-based Limits Cash Credit	Long-term	60.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Short-term Interchangeable Limits*	Short-term	(70.0)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Short-term Non-fund Based limits	Short-term	5.25	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5 Unallocated Limits	Long-term	-	-	-	-	-	[ICRA]A+ (Stable)

*Sub-limit of cash-credit facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund-based Limits Term Loan	Simple
Long Term Fund-based Limits Cash Credit	Simple
Short-term Interchangeable Limits	Simple
Short-term Non-fund Based limits	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2018-FY2021	NA	FY2023-FY2025	38.38	[ICRA]A+ (Stable)
NA	Long Term Fund Based Cash Credit	NA	NA	NA	60.00	[ICRA]A+ (Stable)
NA	Short-term Interchangeable Limits*	NA	NA	NA	(70.00)	[ICRA]A1
NA	Short-term Non Fund Based limits	NA	NA	NA	5.25	[ICRA]A1

Source: Company; *Sub-limit of other working capital facilities

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

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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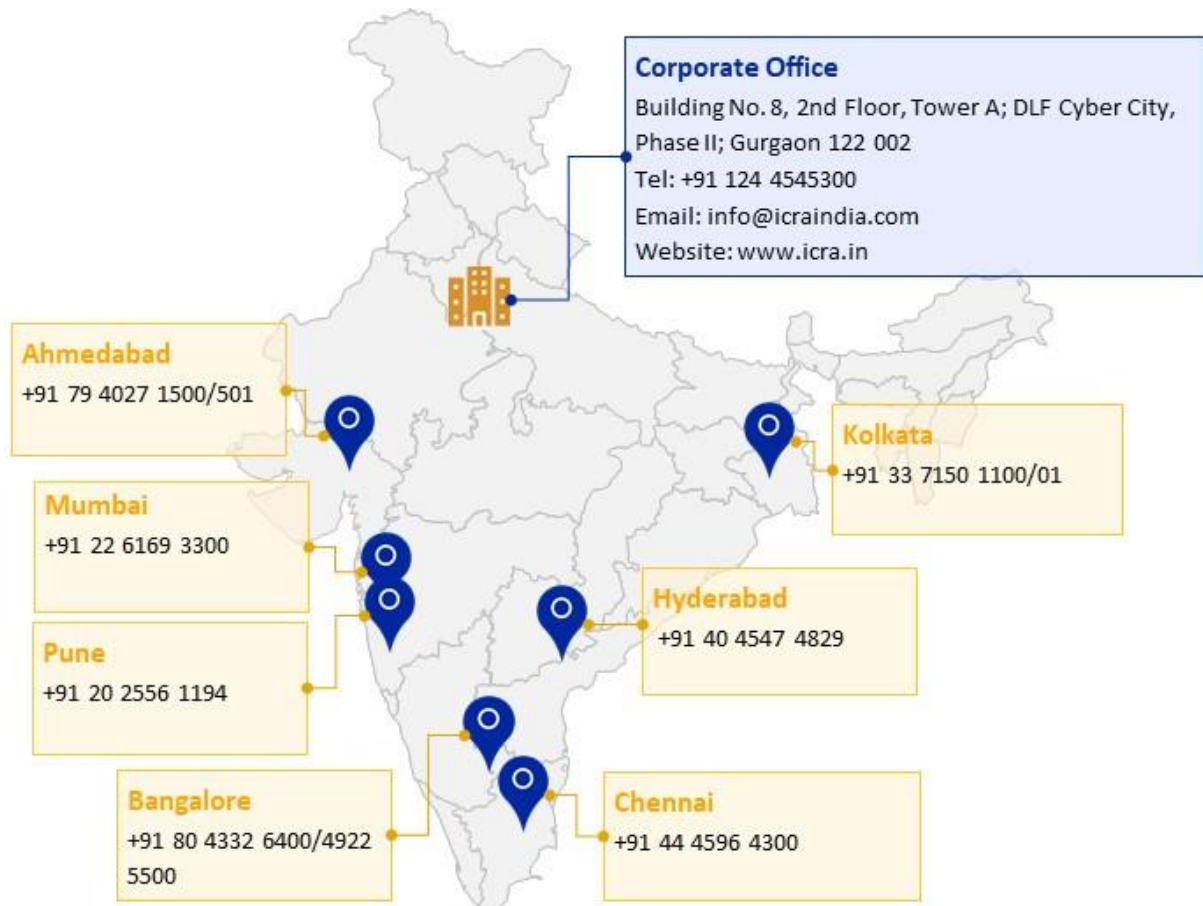
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