September 26, 2024

Chromewell Engineering Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/ Non-fund Based	34.00	54.00	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed/ assigned
Non-fund based	6.75	6.75	[ICRA]A3+; reaffirmed
Term Loans	30.67	50.20	[ICRA]BBB (Stable); reaffirmed/ assigned
Unallocated	0.58	1.05	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed/assigned
Total	**72.00**	**112.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Chromewell Engineering Private Limited (CEPL) factors in the company's established operational track record and extensive experience of its promoters of several decades in the sheet metal stamping and fabrication of components business for tractors and other off-highway vehicles. Besides, CEPL has long relationship with its key customer, the John Deere (JD) Group, which accounts for 80-85% of CEPL's revenue. CEPL supplies components to JD's units across the US, Europe, India and other countries. The company supplies a significant share of components procured by JD, which supports its business position. CEPL also benefits from its presence in two segments of tractors and other off-highway vehicles while a healthy contribution from exports results in revenue diversification.

In FY2024, CEPL's revenue declined by 16.7% to Rs. 272 crore compared to the previous year due to lower exports to the JD Group amid some slowdown in key markets of the US and Europe, even though domestic sales were relatively stable. While CEPL's growth is expected to remain modest in the current fiscal owing to relatively lower demand in the export market, recovery is expected over the medium term, driven by increased offtake from the existing as well as new customer additions and ramp-up of operations at the new manufacturing facility in Pune. ICRA has noted change in the company's shareholding structure with exit of one of the promoters through a proposed equity share buyback by the company. While the ongoing capex and share buyback are expected to result in increased reliance on debt and some moderation in its debt protection metrics over the near term, CEPL's capital structure and coverage indicators are likely to remain comfortable, supported by steady internal accrual generation.

However, the ratings are constrained by CEPL's moderate profit margins owing to intense competition in the industry, limited value addition with high reliance on bought out components and relatively limited economies of scale. The margins moderated to 9.7% in FY2024 from 10.8% in the previous year due to change in the product mix and lower exports. ICRA expects improvement in CEPL's margins over the medium term, supported by increasing economies of scale and higher level of backward integration, post material ramp-up of operations at its new facility in Pune. ICRA also notes the company's significant dependence on the JD Group, which accounts for ~82% of its revenue in FY2024 (both domestic and export sales). Despite this, there is considerable diversification as CEPL supplies components to various business segments of the JD Group, in multiple manufacturing locations/ Group entities across the world. Further, CEPL's profitability also remains vulnerable to foreign currency fluctuation risk as it generates 45-50% of its revenue from exports. While the company does not have a firm hedging policy, it continues to evaluate the feasibility of hedging its forex exposure on a regular basis. The company's revenue generation also remains vulnerable to the inherent cyclicality of the tractor industry, which is exposed to fluctuation in demand with sensitivity to monsoons, farmer sentiment and inherent cyclicality in the construction industry.

The Stable outlook on the long-term ratings reflects ICRA's opinion that CEPL will continue to benefit from its established business position and strong relationships with its key customers, enabling it to report steady internal accrual generation.

Key rating drivers and their description

Credit strengths

Extensive track record of CEPL in sheet metal business and established relationship with the JD Group – Incorporated in 1958, CEPL has a long track record of manufacturing sheet metal components for tractors and other off-highway vehicles. CEPL is currently headed by Mr. Sanjay Kapoor, who has over three decades of experience in this business and is supported by a qualified and experienced management team. During the year, Mr. Uday Kapoor, one of the promoters, exited the business. The exit is not expected to adversely impact the operations, given his limited involvement. Over the years, the company has established strong relationship with its key client, the John Deere Group, from which it derives a sizeable part of its revenue in both domestic and export markets. Further, CEPL is a sole supplier for various components of the OEM's upcoming models, a testimony to their strong relationship.

Diversified revenue stream with presence in two business segments as well as in export markets – With presence in agricultural equipment (tractors), and construction and forestry equipment (excavators and others), CEPL has a diversified business profile. Its sales in the agricultural equipment division account for 65-70% of its revenue, while the rest is contributed by the construction and forestry equipment division, lending some diversity to revenue stream. Moreover, CEPL has a healthy presence in export markets with 45-50% of its revenue generated from exports and some contribution in the form of indirect exports through its domestic customers.

Comfortable capital structure and coverage indicators – Steady accretion to reserves and low reliance on external debt continued to result in low leverage levels for CEPL, with a gearing of 0.4 times and total outside liabilities/total net worth (TOL/TNW) of 0.9 times as on March 31, 2024. While the ongoing capex programme and the proposed equity share buyback are expected to result in increased reliance on debt and some moderation in its debt protection metrics over the near term, CEPL's capital structure and coverage indicators are expected to remain comfortable, supported by steady internal accrual generation.

Credit challenges

Moderate profitability due to limited value addition in the business – CEPL derives major portion of its revenue from sheet metal fabrication of components, which entails limited value addition. Further, a highly competitive industry, limited economies of scale and high dependence on bought out components led to moderate profitability indicators. Nonetheless, the company has been making efforts to enhance its level of backward integration. Besides increasing economies of scale, led to an improvement in CEPL's operating margins to 9.7% in FY2024 from 7.8% in FY2022. Moreover, a further increase in backward integration levels and increased economies of scale, post scaling up of operations at its Pune facility, are expected to aid in further margin improvement over the medium term.

Sizeable revenue dependence on JD Group, though the same is diversified across geographies and segments – CEPL derives ~85% (~45–50% from the Indian entity, John Deere India Private Limited, and ~35-40% from exports to various JD Group units) of its total revenues from the JD Group, which highlights its sizeable dependence on the Group. However, the established association of more than two decades along with a considerable diversification of its sales to the JD Group provides some comfort. Further, CEPL supplies components to various business segments of the JD Group, i.e., agricultural equipment, construction, and forestry equipment. Moreover, sales are made to multiple manufacturing units/entities of the JD Group across the world, which largely operate independently, mitigating the concentration risk to some extent. Moreover, the company is focused on diversifying its customer base over the medium term by adding new customers.

Vulnerability of revenues to inherent cyclicality in tractor and construction industry; exposed to forex risk – As it is a part of the tractor and construction equipment industry, CEPL is exposed to the industry's inherent demand cyclicality. Further, the tractor industry is also exposed to fluctuations in demand with sensitivity to monsoons and farmer sentiments. Moreover, CEPL is exposed to foreign currency fluctuation risk as it generates 45-50% of its revenue from exports. While the company does not have a firm hedging policy, it continues to evaluate the feasibility of hedging its forex exposure on a regular basis.

Liquidity position: Adequate

CEPL's liquidity is adequate, supported by steady internal accrual generation, cash/bank balance and adequate cushion in the form of unutilised working capital limits. The company had cash and bank balance of Rs. 5.85 crore and unutilised bank limits of ~Rs. 34 crore as on July 31, 2024. In FY2025, the company is expected to incur capex of ~Rs. 30 crore and also carry out equity share buyback of ~Rs. 24.0 crore (including tax on buyback). These are expected to be funded by a mix of internal accruals and debt. Moreover, its internal accrual generation is expected to be sufficient to meet its debt repayment obligations of Rs.7-8 crore p.a. in FY2025 and FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade CEPL's ratings if it demonstrates a healthy growth in its scale and profit margins on a sustained basis, along with an improvement in the liquidity profile, while maintaining its debt protection metrics.

Negative factors – Pressure on CEPL's ratings could arise if a considerable decline in revenues and/or profitability or lower-than-anticipated scaling up of new production capacities results in a deterioration in its earnings profile. Moreover, higher-than-anticipated debt-funded capex or a stretch in the working capital cycle, impacting the liquidity negatively, could also exert pressure on the company's ratings. Specific credit metrics that could lead to ratings downgrade include TOL/TNW of more than 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	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of CEPL.

About the company

CEPL was set up in 1958 by Mr. I. R. Kapoor (ex-IAF officer) with an electroplating unit in Mumbai. In 1960, the company diversified into sheet metal components, specialising in sheet metal stampings, deep draw and fabrication, catering to the automobile and off-road vehicle sector including safety related parts. The company supplies these components to leading MNCs and domestic manufacturers. In 2010, the company had set up a manufacturing facility in Pune (Maharashtra), followed by another facility at Dewas (Madhya Pradesh) in 2013 and has recently established a new facility in Pune, which has been partially commissioned. The company mainly supplies components to agricultural equipment (tractors), and construction and forestry equipment (excavators and others).

Key financial indicators (audited)

CEPL – Standalone	FY2023	FY2024
Operating income	327.1	272.6
PAT	27.6	13.6
OPBDIT/OI	10.8%	9.7%
PAT/OI	8.4%	5.0%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	0.9	1.3
Interest coverage (times)	12.7	8.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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

	Current year			Chronology of rating history for the past 3 years					
Instrument	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Sep 26, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based/ Non-Fund Based	Long term and short term	54.00	**[ICRA]BBB (Stable)/ [ICRA]A3+**	July, 06, 2023	[ICRA]BBB (Stable)/ [ICRA]A3+	Jun 13, 2022	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-
Non-Fund Based	Short term	6.75	**[ICRA] A3+**	July, 06, 2023	[ICRA] A3+	Jun 13, 2022	[ICRA] A3+	-	-
Term Loans	Long term	50.20	**[ICRA]BBB (Stable)**	July, 06, 2023	[ICRA]BBB (Stable)	Jun 13, 2022	[ICRA]BBB (Stable)	-	-
Unallocated	Long term and short term	1.05	**[ICRA]BBB (Stable)/ [ICRA]A3+**	July, 06, 2023	[ICRA]BBB (Stable)/ [ICRA]A3+	Jun 13, 2022	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/ Non-Fund Based Limits	Simple
Non-Fund Based Limits	Very Simple
Term Loans	Simple
Unallocated	NA

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	Fund based/Non-Fund Based Limits	-	-	-	54.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Non-Fund Based Limits	-	-	-	6.75	[ICRA]A3+
NA	Term Loan	FY2022-24	9.5-10%	FY2028-30	50.20	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	1.05	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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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