

July 04, 2017

Munjal Kiriu Industries Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Term Loan	24.24	[ICRA]A (Stable) rating outstanding
Long-term Fund Based Limits	30.00	[ICRA]A (Stable) rating outstanding
Short-term Interchangeable Limits**	(12.50)	[ICRA]A1 rating outstanding
Unallocated Limits	17.76	[ICRA]A (Stable) rating outstanding
Total Bank Limits	72.00	
Commercial Paper/Short-term Debt Programme¹	30.00	[ICRA]A1 assigned

*Instrument details are provided in Annexure-1

**Sub-limit of cash-credit facility

Rating action

ICRA has assigned a short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 30.00 crore² commercial paper/short-term debt programme of Munjal Kiriu Industries Private Limited ('MKIPL' or 'the company')³. ICRA also has a long-term rating outstanding of [ICRA]A (pronounced ICRA A) and a short term rating outstanding of [ICRA]A1 for the Rs. 72.0 crore bank facilities of the company. The long term rating has a 'stable' outlook.

Rationale

The assigned rating takes into account the strong parentage of the company, as a joint venture (JV) between Kiriu Corporation, Japan, and Hero Cycles, India (HCL) and the steady improvement in its operating performance over the past two fiscals, which has supported improvement in its profitability and cash accruals from operations. By virtue of the company's efforts in improving capacity utilisation and yields and reducing rejection rates and power consumption at its manufacturing facility, MKIPL has reported consistent expansion its operating profit margins from 14.4% in FY2015 to 25.4% in 10M FY2017. With respect to support drawn from its parentage, Kiriu Corporation is one of the leading suppliers of braking products to Japanese automobile Original Equipment Manufacturers (OEMs), and because of this, MKIPL also enjoys a strong business position with the Indian subsidiaries of these Japanese OEMs, such as Maruti Suzuki India Limited (MSIL), Honda Cars India Limited (HCIL), Renault Nissan and Toyota Kirloskar Motors Limited (TKML).

In addition to the operational support extended, the parent companies have also regularly infused funds in the company to support its capital expenditure plans as well as repayment obligations, which have supported the capital structure of the company over the past several years. Additionally, the company's foreign parent⁴ has also offered explicit support to the company in the form of corporate guarantees for its

¹ The total short-term borrowings (including commercial paper, short-term debt and bank borrowings) of the company at any given point of time should not exceed the company's drawing power or the bank sanctioned fund-based limits (whichever is lower).

² 100 lakh = 1 crore = 10 million

³ For detailed rating scales and definitions refer the ICRA website www.icra.in or other ICRA publications

⁴ The term loans availed by MKIPL from Mizuho Bank are backed by corporate guarantee from Sumitomo Corporation, Japan, which is the parent company of Kiriu Corporation, Japan.

term loans, which has helped the company to negotiate favorable interest rates on its borrowings. The continued commitment to MKIPL exhibited by its promoters offers strength to the credit rating, with expectations that promoters would infuse funds to meet any temporary shortfalls in meeting capital expenditure or repayment obligations, if required, in the future as well.

The ratings also favourably factor in the company's healthy business prospects over the medium term, being one of the key suppliers of brake discs and drums to the largest passenger vehicle OEM in the domestic market (MSIL) and also having strong share of business in supplies to HCIL, Renault Nissan and TKML. The company is present in many of the upcoming models of these OEMs, and is also in the process of setting up a Greenfield facility in Gujarat for catering to the requirements of MSIL and Renault Nissan. Combined with the market position and new product pipeline plans of these OEMs in the Indian passenger vehicle (PV) market, this keeps the revenue growth prospects of MKIPL healthy over the medium term.

The ratings remain constrained by the large ongoing capital expenditure with respect to the Greenfield facility in Gujarat and the associated risks of time and cost over-runs, in addition to the long stabilisation periods usually associated with ferrous die-casting projects. With the project cost of Rs. 160 crore being majorly debt-funded, it is expected that the company's capital structure and coverage indicators are unlikely to improve materially over the medium term, although the assured business from MSIL mitigates business risks to a significant extent.

The ratings also factor in the sizeable debt obligations of the company over the medium term. Although MKIPL would continue to service its repayment obligations from its internal accruals, its dependence on external borrowings to meet capex requirements would also remain high on account of the same. ICRA also takes note of the high capital intensity of the foundry business, which has been constraining the return indicators of the company over the years. MKIPL's revenues are also exposed to some customer concentration risks, as it derives close to 60% of its revenues from its top three customers, although the strong market position of MSIL, HCIL and Renault Nissan mitigates business risks to a large extent.

Going forward, ICRA would continue to monitor the progression of MKIPL's Greenfield plant in Gujarat and its impact on the company's credit metrics. Any time and cost over-runs related to the projects could adversely impact MKIPL's coverage indicators, and hence, timely progression of the project and scale up in revenues as planned would remain critical. It also remains crucial that the company maintain the improvements in its operating efficiency and profitability. Hence, these would remain key rating sensitivities and would be monitored, going forward.

Key rating drivers

Credit strengths

- Consistent improvement in operating efficiencies at its manufacturing facility in Manesar, which has supported operating profit margin expansion of the company over the past two years
- Technical and financial support extended by parent companies, Kiri Corporation, Japan, and HCL, India, which has supported growth and capital structure
- Longstanding relationships with various customers, supported by its Japanese parentage and new business orders won from them improved revenue growth prospects over medium term
- Improvement in credit metrics over past two years supported by equity infusion, scheduled repayment of term loans and steady accruals from operations

Credit weaknesses

- Large capital expenditure requirements for Greenfield facility being set up in Gujarat to cater to MSIL's requirements; high reliance on external borrowings for funding the project likely to keep capital structure and coverage indicators of MKIPL pressurised over medium term
- High capital intensity of ferrous die-casting business, which constrains its return indicators
- Significant repayment obligations over medium term with respect to cash accruals
- Customer concentration risks on account of high dependence on few customers for major proportion of revenues

Description of key rating drivers:

MKIPL is a JV between HCL, India, and Kiriu Corporation, Japan (subsidiary of Sumitomo Corporation, Japan), with 49% held by the former and the latter holding majority stake in the company. By virtue of its strong parentage, MKIPL has derived much operational and technical support over the years, in addition to periodic fund infusions. The promoter companies have infused Rs. 139.0 crore of equity over FY2011 to FY2016, supporting MKIPL's cash flows as its operations scaled up. Furthermore, corporate guarantees extended by Sumitomo Corporation, Japan, on some of its term loans have reduced the costs of borrowing for the company. Kiriu's ownership has also supported MKIPL in gaining business from Indian subsidiaries of leading Japanese OEMs like Maruti Suzuki, Nissan, Toyota and Honda.

MKIPL has worked on improving the operating efficiencies at its manufacturing facility over recent years, resulting in improvement in multiple parameters like yields, power consumption and rejection rates. This has supported the company in achieving improved profitability indicators over the past two fiscals, with operating margins expanding significantly during the period. Along with the equity infusion from promoter companies, this has also aided improvement in MKIPL's credit metrics during the period.

The company's customer base consists of multiple players in the automotive and non-automotive space, although it derives close to 60% of its total revenues from its three largest customers— MSIL, Renault Nissan and HCIL. MKIPL has a healthy share of business with most of these OEMs, and is in the process of setting up its second manufacturing facility in Gujarat, which would cater primarily to the requirements of MSIL. The cost of the project is expected to be around Rs. 160 crore, split over two phases of machining and casting capex. The capex would be funded through a mix of term loans and internal accruals, with the former expected to fund the major proportion of costs.

Analytical approach: For arriving at the ratings, ICRA has primarily taken into account the operational profile and financials of the company on a standalone basis, but has also factored in the implicit support from the parent entities, HCL, India, and Sumitomo Corporation, Japan.

Links to applicable criteria:

[Corporate Credit Ratings: A Note on Methodology](#)
[Rating Methodology for Auto Component Manufacturers](#)

About the company:

Munjal Kiriu Industries Private Limited was formed in December 2007 when Hero Motors Limited (HML) hived off its foundry business into a separate company to form a joint venture with Kiriu Corporation, Japan (subsidiary of Sumitomo Corporation, Japan), with HML having a stake of 67%. In February 2011, Kiriu Corporation and Sumitomo Corporation increased their stake in MKIPL from 33% to 51% by infusing Rs. 45 crore and also acquired stake from HML for a consideration of Rs. 75 crore.

Following the recent demerger process undertaken by HML, its investment in MKIPL was transferred to HCL, who currently holds 49% in MKIPL, with the rest being held by Kiriu Corporation and Sumitomo Corporation. MKIPL's manufacturing facility is located at Manesar (Haryana) with a foundry capacity of 48,000 MT per annum. MKIPL's Board of Directors includes representatives from the Munjal family, Kiriu Corporation, and Sumitomo Corporation. The company is engaged in the manufacture of ferrous castings for automotive and consumer durables industries.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

S. No.	Name of Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding (as on 31.03.17) (Rs. crore)	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015	
					July 2017	Mar 2017	Aug 2016	Sep 2015	Jan 2015	Oct 2014
1	Term Loan	Long Term	24.23	19.56	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)
2	Long term fund based limits	Long Term	30.00	26.96	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)
3	Short term interchangeable limits	Short Term	(12.50)	-	[ICRA] A1	[ICRA] A1	[ICRA] A2+	[ICRA] A2	[ICRA] A2	[ICRA] A2
4	Proposed facilities	Long Term	17.76	-	[ICRA]A (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)	[ICRA] BBB (Stable)	-	[ICRA] BBB (Stable)
5	Commercial paper programme	Short Term	30.00	-	[ICRA] A1	-		-	-	-

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

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Term Loan	NA	NA	FY2020	24.24	[ICRA]A (Stable)
Long term fund based limits	NA	NA	NA	30.00	[ICRA]A (Stable)
Short term interchangeable limits	NA	NA	NA	(12.50)	[ICRA]A1
Proposed facilities	NA	NA	NA	17.76	[ICRA]A (Stable)
Commercial paper programme*	-	-	-	-	[ICRA]A1

*Yet to be issued

Source: Munjal Kiriu Industries Private Limited

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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.

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