

## KSS Abhishek Safety Systems Pvt. Ltd.

December 14, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	5.00	5.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Stable)
Non-fund Based	8.00	8.00	[ICRA]A2+; upgraded from [ICRA]A2
<b>Total</b>	<b>13.00</b>	<b>13.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings revision takes into account the sustained improvement in KSS Abhishek Safety Systems Pvt. Ltd.'s (KSSA) operating income (OI) and profitability in FY2018 on account of increased revenues of seat belts from original equipment manufacturers (OEMs) of passenger vehicles (PVs) and the expansion of the product profile in the last fiscal with the addition of steering wheels and airbags. ICRA also takes note of the successful completion of KSSA's research and development centre, wherein operations started in FY2018. This apart, the generation of steady cash accruals over the past few years has led to an improvement in net worth and reduction of gearing levels.

ICRA's ratings also take into account the extensive experience of the promoters in the automobile components industry with repeat orders from reputed customers like Maruti Suzuki India Limited (MSIL), Volkswagen India Private Limited (VIPL) and Fiat. The ratings also take cognisance of the company's lightly-leveraged capital structure with healthy debt-coverage indicators.

However, the ratings are constrained by the company's high customer-concentration risk as most of its revenues are derived from three main customers – MSIL, VIPL and Fiat. The risk, however, is mitigated by the leading market position of MSIL in the domestic PV market. The ratings also continue to factor in the company's moderate scale of operations.

Going forward, KSSA's ability to increase its scale of operations along with sustained improvement in profitability, diversification of customer profile for seat belts and customer addition for steering wheels and airbags will be the key rating sensitivities. Notably, KSSA's parent company – Key Safety Systems Inc, USA – has merged with and Takata Corporation, Japan. Takata Corporation also has a joint venture in India in the similar line of business named Takata India Private Limited. Hence, the potential merger of KSSA and Takata India Private Limited cannot be ruled out and will be closely monitored.

### Outlook: Stable

ICRA believes that KSSA will continue to benefit from the extensive experience of its promoters and established track of operations. The outlook may be revised to Positive if there is a substantial increase in the company's scale of operations and cash accruals by virtue of an increase in capacity utilisation of the newly launched products. The outlook may be revised to Negative if the cash accrual is lower than expected, or there is a major decline in sales turnover, or any major unplanned capital expenditure or stretch in the working capital cycle weakens liquidity.

### Key rating drivers

### Credit strengths

**Strong technological and operational support from Key Safety Systems** - KSSA has an established track record of technical and operational support from Joyson Safety Systems Inc, USA (JSS), formerly known as Key Safety Systems Ins. USA, one of the biggest companies in the world in terms of safety equipment. Additionally, JSS benefits from its relations

with global OEMs with repeated orders from a reputed clientele. KSSA also benefits from its access to technical support as well as product designs for Indian launches of global OEMs.

**Established relationships and strong share of business from OEMs provides revenue visibility** - KSSA is one of the established players in terms of seat belts, buckles, steering wheel and airbags for domestic PVs. The company has a healthy share of business from MSIL, Volkswagen, Jeep, Bharat Seats Limited etc., which provides healthy revenue visibility for the medium term.

**Ability to manufacture technically-complex safety equipment boosts business** - Over the years, the company has been successful in gaining business from OEMs owing to its ability to offer complex safety equipment for new models. The support of OEMs is expected to continue given the proven track record of the company in terms of innovative offerings. KSSA has developed a separate in-house research and development centre.

**Healthy operational and financial profile** - The company has been witnessing sustained improvement in OI and profitability. The operating and net profit margins remained healthy 15.07% and 8.31%, respectively, in FY2018. The financial profile also remained healthy with DSCR at 77.96 times, interest coverage at 186.92 times and NCA/Total Debt at 561% in FY2018.

## Credit challenges

**High client-concentration risk** - KSSA's revenue growth is mainly dependent on orders from the top three customers. Until FY2017, the company had been getting orders mainly from MSIL and Volkswagen. Jeep has been included in the customer profile in FY2018. The top-three customers contribute to ~85% of the total revenue. However, the risk is mitigated to an extent by its long association with the OEMs.

**High segment-concentration risk** - The company deals in seat belts, steering wheels and airbags. However, more than 90% of its revenues comes from the seat belts and buckles division. This exposes the company to the segment-concentration risk.

**Regular capital expenditure may impact the return indicators** - The company has been incurring capital expenditure since the last two years for capacity expansion of the existing products and as well as for the launch of products. It has also set up a research and development centre for tests by expending ~Rs 35.0 crore for in-house use. If these capacities remain less utilised for a longer period, the company's return on capital employed (RoCE) may be impacted.

## Liquidity position

The company's liquidity profile is supported by limited debt repayments, low reliance on external debt and healthy cash generation from operations.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
Parent/Group Support	Not applicable
Consolidation /Standalone	The ratings are based on the standalone financial profile of the company

## About the company

KSSA, incorporated in 1985, manufactures safety seat belts, steering wheels and airbags. The company has been manufacturing safety seat belts since its establishment and started manufacturing steering wheels and airbags in the current fiscal. In October 2007, KSSA entered into a joint venture with KSS to receive technological support for seat belts, airbags and steering wheels to be manufactured in India. The company's plant is located at IMT-Manesar, Haryana with a capacity to produce around 77.40 lakh seat belts and 1,17,000 airbags per annum. It has also established a steering wheel manufacturing unit in Pune, Maharashtra to manufacture 7,80,000 steering wheels per annum. The company's major customer is MSIL, and other customers including Volkswagen, Jeep, Bharat Seats Limited etc.

## Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	201.17	249.83
PAT (Rs. crore)	16.50	20.75
OPBDIT/OI (%)	15.06%	15.07%
RoCE (%)	59.12%	42.07%
Total Debt/TNW (times)	0.04	0.07
Total Debt/OPBDIT (times)	0.07	0.15
Interest Coverage (times)	160.42	186.92

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

	Current Rating (FY2019)		Chronology of Rating History for the past 3 years					
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2018	Date & Rating in FY2018 March 2018	Date & Rating in FY2018 February 2018	Date & Rating in FY2018 July 2017
1	Cash Credit	Long Term	5.00	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	-	-
2	Letter of Credit	Short Term	8.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A3 ISSUER NOT COOPERATING
3	Unallocated	Long/Short Term	0.00	-	-	-	[ICRA]BBB+(Stable) /A2;	[ICRA]BBB+(Stable) /A2 ISSUER NOT COOPERATING

## 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	Letter of Credit	-	-	-	8.00	[ICRA]A2+
NA	Cash Credit				5.00	[ICRA]A-(Stable)

Source: KSS Abhishek Safety Systems Pvt. Ltd.

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

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