

India Ratings Upgrades Kross's Bank Loans to 'IND A'/Stable; Off Rating Watch with Positive Implications

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India Ratings and Research (Ind-Ra) has upgraded Kross Limited's (KL) bank facilities to 'IND A' from 'IND A-' while resolving the Rating Watch with Positive Implications. The Outlook is Stable. The detailed rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR885	IND A/Stable/IND A1	Upgraded; off Rating Watch with Positive Implications
Non-fund-based working capital limit	-	-	-	INR100.00	IND A1	Upgraded; off Rating Watch with Positive Implications
Term loan	-	-	31 December 2029	INR130 (reduced from INR152)	IND A/Stable	Upgraded; off Rating Watch with Positive Implications

Analytical Approach

Ind-Ra continues to take standalone view of KL to arrive at the ratings.

Detailed Rationale of the Rating Action

The upgrade and resolution of the Rating Watch with Positive Implications reflect a significant improvement in KL's liquidity and credit metrics in FY25 following the receipt of the initial public offering (IPO) proceeds. The proceeds were utilised to reduce debt to a large extent, thus reducing the interest burden, thereby improving the coverage indicators. KL has been making investments to increase its existing capacities and new products, which might benefit its topline FY26 onwards. Furthermore, Ind-Ra believes KL's deleveraged balance sheet and high cash balance would support its credit profile in case of any downturn in the auto industry.

List of Key Rating Drivers

Strengths

- Improvement in scale of operations and operating margins likely to sustain in the medium term
- Product diversification and innovation
- Established market position
- Comfortable credit metrics

Weaknesses

- Cyclical nature of automobile industry

Detailed Description of Key Rating Drivers

Improvement in Scale of Operations and Operating Margins likely to Sustain in the Medium Term:

KL is a mid-sized player in the auto ancillary market and caters to large original equipment manufacturers (OEMs). Its revenue grew 26% yoy to INR6,202 million in FY24 and absolute EBITDA 40% yoy to INR807 million. The improvement was on account of a higher contribution from the trailer-axle sales for the prime mover segment (trailers and semi-trailer) as it has the highest demand among the medium and heavy commercial vehicles segment. During 9MFY25, the company earned a revenue of INR4,354 million; the revenue is likely to improve on a yoy basis to around INR6,500 million in FY25.

KL's EBITDA margin rose to a healthy 13.02% in FY24 (FY23: 11.07%), because of increased contribution from the high-margin trailer-axle segment and better absorption of fixed cost. The return on capital employed was 32.9% in FY24 (FY23: 30.2%). During 9MFY25, KL's operating margin stood at 12.50%, with an absolute EBITDA of around INR550 million. The EBITDA margin dipped in 9MFY25 as the company had to incur a one-time issue expense for the IPO. Ind-Ra expects the margins to remain healthy in the medium term with a continuous focus on new product lines in the trailer axle and suspension business and an improvement in export sales.

Product Diversification and Innovation: The company has introduced new product lines and increased its presence in the tractor, transmission and trailer components segments through innovative production process with a lower production cost and a shorter production time. KL has a diversified product portfolio catering to the commercial vehicle and tractor industry. KL's business is fully backward integrated with the presence of its foundry division; it is among the few players with a full product range of axles and suspension (both mechanical and air suspension). The key products manufactured by the company are

companion flanges, axle shafts, rear end spindles, anti-roll bars, differential spiders, inter-axle kits, suspension linkages, universal joints and crosses, pole wheels, scam shafts and a variety of tractor parts for the hydraulic lift arrangement. Given its long track record and diversified product portfolio, KL was able to attract new customers such as Leax Falun AB in FY24.

Established Market Position: KL is an established player in the auto ancillary industry, with a track record of over 25 years. It has a strong market position in its key products segments such as axel shaft, power take-off shaft, lift shaft and other related parts. The company has been associated with different OEMs for almost two decades, including Tata Motors Limited, Ashok Leyland Ltd., TAFE Limited, DANA India Pvt. Ltd., International Tractors Pvt. Ltd., and EATON Industrial Systems Pvt. Ltd. KL's long-standing relationships with large OEMs and their tier one suppliers, domestic dealers and fabricators for trailer axle and suspension business, complemented by a diversified network of dealers for trailer axle and suspension assembly business, have helped the entity receive repeat orders.

Comfortable Credit Metrics: KL's credit metrics have improved significantly as a large part of its external borrowings has been repaid from the IPO proceeds. The debt, which was INR1,180 million at end-March 2024, reduced to INR310 million at end-December 2024. KL's gross interest coverage (operating EBITDA/gross interest expense) improved to 5.42x in FY24 (FY23: 4.71x) owing to an increase in the EBITDA to around INR807 million (INR303.40 million). The net leverage (adjusted debt/operating EBITDA) deteriorated marginally to 1.32x in FY24 (FY23: 1.28x) due to an increase in debt levels. However, KL's credit metrics are likely to improve significantly in FY25 and over the medium term, with interest coverage of over 7x and net leverage of less than 1x, due to a decline in debt levels and interest cost.

Cyclical Nature of Automobile Industry: KL primarily caters to the cyclical commercial vehicle segment, the demand for which is largely linked to the growth prospect of the overall economy, macro-economic fundamentals, industrial production, fleet utilisation and freight rates. The upcycle in the commercial vehicle segment started in October 2020 and the quantum sales in the segment are likely to increase further in the medium term. Ind-Ra believes KL's deleveraged balance sheet and high cash balance would support its credit profile in case of a downturn in the auto industry.

Liquidity

Adequate: KL's maximum average maximum utilisation of the fund-based limits was comfortable at around 75% during the 12 months ended December 2024. However, after the receipt of the IPO proceeds, the utilisation reduced significantly to about 20 % during the three months ended December 2024 as a large part of the working capital loans were repaid. Ind-Ra does not expect any major increase in the working capital utilisation over the next one-to-two years. The cash flow from operations turned negative at INR57 million in FY24 (FY23: INR308.33 million) due to unfavourable changes in working capital. The free cash flow too turned negative at INR328.85 million in FY24 (FY23: 108.86 million) on account of the capex incurred by the company. KL had unencumbered cash and equivalent balance of around INR110.43 million at FYE24 (FYE23: INR143.51 million), which increased to INR1,160 million in December 2024. Moreover, the company has access to capital markets and multiple banks for fund raising.

Rating Sensitivities

Positive: A significant improvement in the scale of operations while maintaining the credit profile and liquidity on a sustained will lead to a Positive Outlook.

Negative: Significant deterioration in the scale of operations or profitability or liquidity on a sustained basis will lead to a negative rating action.

About the Company

Incorporated in May 1991, KL is promoted by Sudhir Rai and his wife, Anita Rai. The company is a family-run business, and at present, Sudhir Rai and his two sons are actively engaged in the business. The company commenced operations in 1993 and is engaged in the manufacturing of automobile parts (such as axle shafts, coupling flanges, and tractor parts) for commercial vehicles and tractors. It has four manufacturing plants, including a forging unit in Jamshedpur.

Key Financial Indicators

Particulars	FY24	FY23
Revenue (INR million)	6,202.50	4,886.28
EBITDAR (INR million)	807.58	575.22
EBITDAR margin (%)	13.02	11.77
Gross interest coverage (x)	5.42	4.71
Net leverage (x)	1.32	1.28
Source: KL; Ind-Ra		

Status of Non-Cooperation with previous rating agency

KL has been placed under the non-cooperating category by CARE Ratings Ltd due to inadequate information provided by the company.

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook					
				4 September 2024	18 September 2023	12 September 2023	24 July 2023	28 July 2022	9 Aug 2021
Issuer rating	Long-term	-	-	-	WD	IND BBB+/Positive	IND BB (ISSUE RNOT COOPERATING RATING)	IND BB (ISSUE RNOTC OOPERATING ATING)	IND BB (ISSUE RNOTC OOPERATING ATING)
Term loan	Long-term	INR130	IND A/Stable	IND A- / Rating Watch with	-	IND BBB+/Positive	IND BB (ISSUE RNOTC OOPERATING ATING)	IND BB (ISSUE RNOTC OOPERATING ATING)	IND BB (ISSUE RNOTC OOPERATING ATING)

				Positive Implications					
Fund-based working capital limit	Long-term/Short Term	INR885.00	IND A/Stable/A1	IND A- / Rating Watch with Positive Implications /IND A2+/ Rating Watch with Positive Implications	-	IND BBB+/Positive/IND A2	IND BB (ISSUE RNOTC OOPERATING)/IND A4+ (ISSUE RNOTC OOPERATING)	IND BB (ISSUE RNOTC OOPERATING)/IND A4+ (ISSUE RNOTC OOPERATING)	IND BB (ISSUE RNOTC OOPERATING)/IND A4+ (ISSUE RNOTC OOPERATING)
Non-fund based working capital limit	Short-term	INR100	IND A1	IND A2+/Rating Watch with Positive Implications	-	IND A2	IND A4+ (ISSUE RNOTC OOPERATING)	IND A4+ (ISSUE RNOTC OOPERATING)	IND A4+ (ISSUE RNOTC OOPERATING)

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based working capital limit	Low
Non-fund based working capital limit	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity- indicators>.

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Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

Policy for Placing Ratings on Rating Watch

The Rating Process

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