

## India Ratings Upgrades Kross to 'IND BBB+' / Positive

Sep 12, 2023 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has upgraded Kross Limited's (KL) Long-Term Issuer Rating to 'IND BBB+' from 'IND BB(ISSUER NOT COOPERATING)'. The Outlook is Positive. The instrument-wise rating actions are as follows:

Instrument Type	Coupon Rate	Date Of Issuance	Maturity Date	Size of Issue (million)	Rating Outlook	Rating Action
Fund-based working capital limit	-	-	-	INR465.00	IND BBB+/Positive/IND A2	Upgraded
Fund-based working capital limit	-	-	-	INR30.00	IND BBB+/Positive/IND A2	Assigned
Non-fund-based working capital limit	-	-		INR100.00 (reduced from INR130)	IND A2	Upgraded
Term loan	-	-	31 March 2024	INR132.2	IND BBB+/Positive	Upgraded

The upgrade reflects KL's improved business and financial risk profile on the back of its healthy operating income and operating margin since FY22. The Positive Outlook reflects the expected strong growth in the revenue and operating margins in the medium term on account of the pent-up domestic demand from original equipment manufacturers (OEMs).

### Key Rating Drivers

**Continuous Improvement in Scale of Operations:** The company's revenue grew at a CAGR of 63% over FY21-FY23, led by an increase in the quantity sold and addition of product lines. It had revenue of INR4,905 million as per FY23 provisional numbers (FY22:INR2,985 million; FY21: INR1,854.56 million) and INR1,950 million during April to July 2023. Ind-Ra expects that the revenue growth trend will continue in the near to medium term due to an expected pent-up of domestic demand from OEMs.

**Healthy and Stable profitability Margins:** KL's EBITDA margin rose to 11.67% in FY23 (FY22: 10.16%), because of better sales realisation and better absorption of fixed cost. ROCE improved to 29.9% in FY23 (FY 22: 16.2%; FY21: 11.4%). Ind-Ra expects the margins to remain healthy in the medium term with the introduction of new product lines in the trailer axle & suspension business.

**Sustained Improvement in Credit Metrics:** KL's credit metrics are strong with the gross interest coverage (operating EBITDA/gross interest expense) improving to 5.08x in FY23 (FY22: 3.74x) and the net leverage (total adjusted debt/operating EBITDA) to 1.22x (2.64x). This was owing to the healthy EBITDA generation of around INR572.5 million in FY23 (FY22: INR303.40 million). Ind-Ra expects the credit metrics to improve over the medium term due to the scheduled repayment of loans and absence of any major debt-funded capex.

**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 is 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., EATON Industrial Systems Pvt. Ltd. etc.

**Product Diversification and Innovation:** The company has introduced new product lines and increased their presence in tractor, transmission and trailer components through innovative production process with lower production cost and shorter production time.

**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 is expected to increase further. Any slowdown in the demand from the industry could affect KL's revenue and credit metrics.

**Liquidity Indicator - Adequate:** KL's maximum average utilisation of the fund-based limits was comfortable at around 72% over the 12 months ended July 2023. Ind-Ra expects the working capital utilisation to have been on similar lines since then. Also, the cash flow from operations have been positive at INR309.47 million in FY23 (FY22: INR89.39 million) and are likely to remain comfortable in the medium term due to the timely receipt of payments from its major counterparties. The company has a scheduled debt repayment of around INR100 million in FY24, which is likely to be met from internal accruals. The company had an unencumbered cash and equivalent balance of around INR126 million at FY23. Ind-Ra expects the cash flow from operations to be positive, however the free cash flow may remain negative in the foreseeable future on account of the regular capex to be undertaken to support the growth in operations. Moreover, the company has access to multiple banks for fund raising.

Moreover, the working capital cycle is short and improved to 66 days in FY23 (FY22: 95 days) due to a decrease in the inventory holding and receivables period.

## Rating Sensitivities

**Positive:** Significant improvement in the scale of operations while maintaining the current credit profile and liquidity on a sustained basis will lead to a Positive Outlook.

**Negative:** Significant deterioration in the scale of operations or profitability or liquidity or interest coverage below 3.50x on sustained basis will lead to a negative rating action.

## Company Profile

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

### FINANCIAL SUMMARY

Particulars	FY23 (Provisional)	FY22
Revenue (INR million)	4,905.77	2,985.00
EBITDAR (INR million)	572.52	303.57
EBITDAR margin (%)	11.67	10.16
Gross interest coverage (x)	5.08	3.74
Net leverage (x)	1.22	2.64
Source: KL; Ind-Ra		

## Non-Cooperation with previous rating agency

Not applicable

## Solicitation Disclosures

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## Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	24 July 2023	
Issuer rating	Long-term	-	IND BBB+/Positive	IND BB(ISSUERNOT COOPERATING)	INC
Term loan	Long-term	INR 132.20	IND BBB+/Positive	IND BB(ISSUERNOTCOOPERATING)	INC

Fund-based working capital limit	Long-term/Short Term	INR 495.00	IND BBB+/Positive/IND A2	IND BB(ISSUERNOTCOOPERATING)/IND A4+(ISSUERNOTCOOPERATING)	BBB+ A-
Non-fund based working capital limit	Short-term	INR 100	IND A2	IND A4+ (ISSUERNOTCOOPERATING)	

## Bank wise Facilities Details

Click here to see the details

## Complexity Level of Instruments

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

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

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**Evaluating Corporate Governance**

**Short-Term Ratings Criteria for Non-Financial Corporates**

**Corporate Rating Methodology**

**The Rating Process**

## **DETAILED FINANCIAL SUMMARY**

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