CRISIL Ratings

Rating Update

June 04, 2024 | Mumbai

Kalyani Forge Limited

Update as on June 04, 2024

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors

- Revenue growth of more than 25% per annum with operating margin over 10%, resulting in yearly cash accrual above Rs 30 crore
- Sustainable improvement in the working capital cycle and maintenance of healthy capital structure

Downward factors

- Decline in revenue or operating margin, leading to cash accrual below Rs 15 crore
- Large, debt-funded capex or acquisition; or more-than-expected dividend payout

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Kalyani Forge Limited (KFL) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Company

KFL, established in 1979, manufactures high-quality, hot-warm and cold-forged products at its plants in Koregaon Bhima and Sanaswadi in Pune, Maharashtra. Ms Rohini G Kalyani is the managing director.

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CRISIL
Ratings

Rating Rationale

March 27, 2023 | Mumbai

Kalyani Forge Limited

Ratings reaffirmed at 'CRISIL BBB+/Stable/CRISIL A2'

Rating Action

Total Bank Loan Facilities Rated	**Rs.100 Crore**
Long Term Rating	**CRISIL BBB+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A2 (Reaffirmed)**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB+/Stable/CRISIL A2' ratings on the bank facilities of Kalyani Forge Limited (KFL).

Operating performance has been steady, supported by stable demand from the automotive (auto) as well as the non-auto segments (such as power and engineering). As the Covid-19 pandemic-led disruptions gradually subsided, business revived in fiscal 2022; operating income stood at Rs 246.8 crore and operating profit margin at 7.7%. Further, revenue of Rs 207 crore was generated for the first nine months of fiscal 2023, with operating profit margin of 7.4%.

The credit risk profile continues to be driven by healthy financial risk profile and adequate liquidity. Financial risk profile shall remain comfortable, despite the capital expenditure (capex) to be incurred for enhancing machinery/capacity.

The ratings continue to reflect established market position of KFL in the domestic forging and machining industry and healthy financial risk profile. These strengths are partially offset by exposure to cyclicality in the auto sector, volatility in raw material prices and intense competition along with modest return on capital employed (RoCE) and large working capital requirement.

Key rating drivers and detailed description

Strengths:

Established market position

The promoter has around four decades of experience in the domestic forging and machining industry; her strong understanding of market dynamics and healthy relationship with reputed original equipment manufacturers in the auto segment should continue to support the business. Clientele is diverse, with top 5 customers contributing to 30-35% of the total revenue.

Healthy financial risk profile

Financial risk profile shall remain comfortable, despite the capex, driven by the gradual improvement in operating performance. Gearing was 0.27 time and total outside liabilities to tangible networth ratio at 0.75 time as on March 31, 2022, supported by strong networth of Rs 102.94 crore and controlled working capital debt. Backed by lower interest outgo and recovery in operating margin, interest coverage ratio improved to 5.42 times in fiscal 2022; net cash accrual to adjusted debt ratio was 0.54 time.

Weaknesses:

Exposure to cyclicality in the auto sector, volatility in raw material prices and intense competition along with modest RoCE

Operating margin remains susceptible to volatile raw material prices, with any increase being passed on to customers with some time lag. Further, most of the revenue (70-80%) comes from the auto sector, which is cyclical. Moreover, intense competition from auto ancillary manufacturers may continue to constrain scalability, pricing power and profitability. Operating margin was 7.4% for the first nine months of fiscal 2023; the margin is expected at 7.5-8.0% and RoCE at 5.8-8.0% over the medium term.

Large working capital requirement
Gross current assets (GCAs) were sizeable at 175-235 days for the five fiscals through 2022. GCAs decreased to 184 days as on March 31, 2022 (from 233 days a year ago) as debtors dropped to 110 days (136 days) and inventory to 78 days (97 days). Despite the improvement in fiscal 2022 due to recovery in debtor collection, the working capital cycle is likely to remain stretched over the medium term, with GCAs projected at 180-200 days.

Liquidity: Adequate
Liquidity should remain supported by the ample surplus cash available in cash accrual and bank lines along with sufficient cash and cash equivalent. Cash accrual is projected at Rs 14-20 crore per fiscal against yearly debt repayment of Rs 2-8 crore over the medium term. The working capital limit of Rs 40 crore was utilised at 66% (on average) for the 12 months through October 2022. The company may undertake a debt-funded capex in the next 18 months to add machinery/capacity.

Outlook: Stable
KFL will continue to benefit from its established position in the forging and machining industry.

Rating sensitivity factors
Upward factors
- Revenue growth of more than 25% per annum with operating margin over 10%, resulting in yearly cash accrual above Rs 30 crore
- Sustainable improvement in the working capital cycle and maintenance of healthy capital structure

Downward factors
- Decline in revenue or operating margin, leading to cash accrual below Rs 15 crore
- Large, debt-funded capex or acquisition; or more-than-expected dividend payout

About the company
KFL, established in 1979, manufactures high-quality, hot-warm and cold-forged products at its plants in Koregaon Bhima and Sanaswadi in Pune, Maharashtra. Ms Rohini G Kalyani is the managing director.

Key financials

Particulars	Unit	2022	2021
Revenue	Rs crore	246.85	181.56
Profit after tax (PAT)	Rs crore	3.13	-1.76
PAT margin	%	1.27	-0.97
Adjusted debt/adjusted networth	Times	0.27	0.27
Interest coverage	Times	5.42	4.72

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	40	NA	CRISIL BBB+/Stable
NA	FCNR (B) Long Term Loan	NA	NA	31-Mar-23	1.22	NA	CRISIL BBB+/Stable
NA	Foreign Exchange Facility	NA	NA	NA	1	NA	CRISIL A2
NA	Letter of credit & Bank Guarantee	NA	NA	NA	22	NA	CRISIL A2
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	24.28	NA	CRISIL BBB+/Stable
NA	Term Loan	NA	NA	Mar-27	11.5	NA	CRISIL BBB+/Stable

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	78.0	CRISIL BBB+/Stable / CRISIL A2		--		--	28-12-21	CRISIL BBB+/Stable / CRISIL A2	22-09-20	CRISIL BBB+/Negative / CRISIL A2	CRISIL BBB+/Stable / CRISIL A2
Non-Fund Based Facilities	ST	22.0	CRISIL A2		--		--	28-12-21	CRISIL A2	22-09-20	CRISIL A2	CRISIL A2

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	20	State Bank of India	CRISIL BBB+/Stable
Cash Credit	20	HDFC Bank Limited	CRISIL BBB+/Stable
FCNR (B) Long Term Loan	1.22	State Bank of India	CRISIL BBB+/Stable
Foreign Exchange Facility	1	State Bank of India	CRISIL A2
Letter of credit & Bank Guarantee	12	State Bank of India	CRISIL A2
Letter of credit & Bank Guarantee	10	HDFC Bank Limited	CRISIL A2
Proposed Fund-Based Bank Limits	24.28	Not Applicable	CRISIL BBB+/Stable
Term Loan	11.5	State Bank of India	CRISIL BBB+/Stable

This Annexure has been updated on 27-Mar-23 in line with the lender-wise facility details as on 08-Feb-23 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for rating short term debt

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