December 28, 2022

Klassic Wheels Limited: Ratings reaffirmed; outlook on long-term rating revised to Stable from Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based / Term Loans	84.40	135.13	[ICRA]BBB+(Stable) reaffirmed / assigned; outlook revised to Stable from Negative
Long Term – Fund Based / Cash Credit	18.80	28.80	[ICRA]BBB+(Stable) reaffirmed / assigned; outlook revised to Stable from Negative
Short Term – Non Fund Based Limits	10.00	10.00	[ICRA]A2 reaffirmed
Long Term / Short Term – Unallocated Limits	0.73	-	-
Total	**113.93**	**173.93**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook on the long-term rating of Klassic Wheels Limited (KWL or the company) to Stable reflects the stabilisation in operations of the recently commercialised alloy wheel division of KWL, and the subsequent improvement in the company's accruals and liquidity profile. The alloy wheel division of KWL had commenced commercial production from June 2021. While there were initial hiccups in scaling up the same, the operations have subsequently stabilised and ramped up, as evidenced from reducing rejection rates and improvement in capacity utilisation. With healthy demand for alloy wheels domestically, and incremental orders secured from Original Equipment Manufacturers (OEMs) for the same, the company now plans to undertake further capacity expansion in this division, highlighting the substantial growth prospects associated with the alloy wheels business. With the improving accruals of the company, its liquidity position has also improved, as evident from healthy buffer in the form of undrawn working capital lines, which has minimised the requirement for further financial support from the promoters in the form of unsecured loans.

The ratings continue to draw comfort from the established track record of KWL's promoters, spanning over three decades in the wheel manufacturing industry. KWL enjoys healthy wallet share with leading domestic two-wheeler (2W) and three-wheeler (3W) OEMs, providing sufficient revenue visibility to the company. It has also made efforts to de-risk its profile, by venturing into the alloy wheel segment, given the increasing penetration of alloy wheels in both 2W and passenger vehicle (PV) segment. The company has also been making inroads in gaining business from additional OEMs as well, with orders secured for supply of steel, hybrid and alloy wheels for 2W and electric vehicle (EV) scooters. ICRA also notes that the company further plans to diversify its revenue profile by venturing into the manufacturing of steel wheels for small passenger cars and light commercial vehicles (LCVs), with minimal investments in its existing manufacturing plant.

The ratings, however, remain constrained by the moderation in KWL's profitability and debt coverage indicators amid macroeconomic headwinds, initial teething issues in the alloy wheel plant and the debt-funded capacity expansion undertaken by KWL in the recent past. The company also remains exposed to high customer concentration risk, with the top two customers accounting for 59% revenues in FY2022. However, well-established relations with reputed clients and healthy wallet share for leading models manufactured by these OEMs provide some comfort. KWL also faces stiff competition from well-entrenched players in the wheel manufacturing industry, which limits its pricing flexibility to some extent. ICRA also notes the exposure of KWL's profitability to the volatility associated with commodity prices, and also the inherent cyclicality in the automobile industry.

Key rating drivers and their description

Credit strengths

Established promoter track record of more than three decades in the industry – The company is promoted by the Ahmednagar-based Munot family, who have operated in the auto ancillary business for the last two generations. The promoters are technically qualified with a wide industrial experience in the auto ancillary sector. The Group companies, Sumesh Industries, Kaygee Foam Private Limited and Sushant Industries, are also involved in the same sector. Such established promoter track record has helped the company in onboarding new clients for its newly commissioned alloy wheels division.

Reputed clientele with healthy wallet share of leading domestic 2W and 3W OEMs – KWL has developed a reputed client base over the years, including OEMs such as Honda Motorcycle & Scooter India Pvt. Ltd. (HMSI), TVS Motor Company Limited (TVS), Piaggio Vehicles Private Limited (Piaggio), and Bajaj Auto Limited (BAL), among others. The company has a healthy wallet share in supplying steel and alloy wheel rims to various 2W and 3W models of automotive OEMs such as HMSI, TVS, Piaggio, and BAL. It is also in discussions with onboarding few leading OEMs in the EV space. In order to attain higher segmental diversification, the company also plans to venture into manufacturing steel wheels for small PVs and LCVs.

Presence in steel as well as alloy wheel for 2W segment – With the recent commercialisation of the alloy wheel facility, KWL is now present in steel as well as alloy wheel segments for 2W OEMs. While steel wheels have been traditionally preferred in scooters, the penetration of alloy wheels is gradually increasing, especially for the urban population with higher disposable income. Presence in both these wheel segments in the 2W space is expected to provide KWL with product diversification benefits. The company also manufactures hybrid wheels, a combination of steel and alloy wheels for 2Ws.

Credit challenges

Moderation in profitability and debt coverage indicators from headwinds in domestic automobile industry and recent debt-funded capacity expansion – KWL reported a moderation in its profitability and debt coverage indicators (from FY2020 through FY2022) primarily due to the headwinds in the domestic automobile industry and the debt-funded capacity expansion undertaken by the company. Slowdown in the automobile industry and the consequent impact on operating leverage impacted operating profitability and return indicators over FY2020-FY2021, while the initial teething issues at the new alloy wheel plant impacted margins in FY2022.The margin pressure has eased sequentially, with healthy sales traction reported in the present fiscal, and stabilisation of the alloy wheel plant, resulting in the operating margin expanding from 7.9% (FY2022) to 8.8% (FY2023). With further capacity expansion planned over the next fiscal, commensurate returns from the upcoming capacity expansion remain crucial for KWL to improve its liquidity position as well as return indicators, although proven track record of newly commissioned alloy wheels division provides some comfort.

High client concentration risk – KWL faces high client concentration risk, with the top two customers accounting for 59% of its revenues during FY2022. The company's business performance is, thus, vulnerable to the performance and market share of these key customers. However, in view of the healthy market shares of these customers in the scooter segment, the risk is mitigated to a large extent. Moreover, addition of new clients in the alloy wheel segment, and plans to diversify into the PV and LCV segments will reduce its dependency on its larger customers over the medium term.

Stiff competition from well-entrenched players in the industry – The company faces stiff competition from reputed and relatively larger players acting as captive suppliers to OEMs, besides Chinese imports in 2W wheel supplies. On the other hand, KWL enjoys a healthy share of business with its key OEMs in the 3W segment, where it has been increasing its presence.

Profitability exposed to commodity price volatility and inherent cyclicality in the automobile industry – Given the nature of the industry it operates in, KWL's profitability remains exposed to commodity price volatility; although the presence of a price escalation clause in the supply agreements with key customers enables the company to pass on price fluctuations, thereby providing some cushion against the said risk. The margins also remain exposed to the inherent cyclicality in the automobile industry, with revenues exposed to the demand volatility.

Liquidity position: Adequate

KWL's liquidity position is expected to remain adequate, with cash flows of Rs. 30-40 crore from operations, as well as buffer of Rs. 20 crore (as of November 2022) from the undrawn working capital facilities. Against these, the company has annual debt repayments of Rs. 18-20 crore over the next 1-2 years, and capex outlay of Rs. 75-80 crore over FY2023-FY2024, for which it has debt sanction of Rs. 50 crore in place. The liquidity profile draws further comfort from the financial support extended by the promoters in the form of unsecured loans, with commitment of further financial support in case of any exigencies.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of material improvement in the liquidity position and debt coverage indicators of the company on a sustained basis. Specific credit metrics that can result in rating upgrade include TD/OPBITDA being lower than 2.3 times on a sustained basis.

Negative factors – Downward pressure on the rating could arise if KWL's scale and profitability margins show sustained deterioration and/or if the debt-funded capex undertaken does not generate commensurate returns, materially impacting its liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of Klassic Wheels Limited.

About the company

Incorporated in 1994, KWL has been manufacturing steel wheel rims for 2Ws and 3Ws. The company has two manufacturing units at MIDC Ahmednagar, Maharashtra. KWL supplies its products to reputed automotive OEMs in India, including HMSI, TVS, Piaggio and BAL, among others. The company is promoted by the Ahmednagar-based Munot family, who have a presence in the auto ancillary business over the last two generations. KWL has a current installed annual production capacity of 12.5 million steel rims (combined for 2Ws and 3Ws) and 1.2 million alloy (and hybrid) wheels for 2Ws. The company plans to venture into manufacturing steel wheels for small PVs and LCVs as well, going forward. Group companies, Sushant Industries, Sumesh Industries and Kaygee Foam Private Limited, are also involved in the auto ancillary business, mainly undertaking trading and job-work assignments. KWL undertakes paint jobs for engine parts sold by Sumesh Industries and Sushant Industries, while it manufactures foam for Kaygee Foam Private Limited, although the quantum of inter-group sales remains modest.

Key financial indicators

KWL	FY2021 Audited	FY2022 Audited	H1 FY2023 Provisional
Operating Income (Rs. crore)	157.9	298.2	233.6
PAT (Rs. crore)	6.2	0.3	5.4*
OPBDIT/OI (%)	12.5%	7.9%	8.8%
PAT/OI (%)	3.9%	0.1%	2.3%*
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.5	1.3
Total Debt/OPBDIT (times)	3.8	4.7	2.3
Interest Coverage (times)	4.4	2.8	4.5

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *PBT: Profit Before Tax*

Source: KWL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 30, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					December 28, 2022	July 5, 2022	July 12, 2021 October 6, 2021	October 13, 2020	September 30, 2019
1	Term Loan	Long- term	135.13	57.34	[ICRA]BBB+(Stable)	[ICRA]BBB+(Negative)	[ICRA]BBB+(Negative)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2	Cash Credit (Working Capital Facilities)	Long-term	28.80	18.50	[ICRA]BBB+(Stable)	[ICRA]BBB+(Negative)	[ICRA]BBB+(Negative)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
3	Non Fund Based Facilities	Short-term	10.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Unallocated	Long-term/ Short-term	-	-	-	[ICRA]BBB+(Negative)/ [ICRA]A2	[ICRA]BBB+(Negative)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Term Loans	Simple
Long Term – Cash Credit	Simple
Short Term – Non-Fund Based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: Click Here

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	Term Loan – I	FY2018	NA	FY2024	26.93	[ICRA]BBB+(Stable)
NA	Term Loan – II	FY2018	NA	FY2024	20.00	[ICRA]BBB+(Stable)
NA	Term Loan – III	FY2018	NA	FY2024	38.20	[ICRA]BBB+(Stable)
NA	Term Loan – IV (Proposed)	NA	NA	NA	50.00	[ICRA]BBB+(Stable)
NA	Working Capital Facilities	NA	NA	NA	28.80	[ICRA]BBB+(Stable)
NA	Non Fund Based Facilities	NA	NA	NA	10.00	[ICRA]A2

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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