Kalyani Technoforge Limited

November 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	483.90 (Enhanced from 325.00)	CARE AA-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	735.00 (Enhanced from 575.00)	CARE AA-; Stable / CARE A1+	Reaffirmed
Commercial Paper	100.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Kalyani Technoforge Limited (KTFL or the company) continues to derive strength from the company's strong business risk profile, supported by the benefits derived from the operational and managerial linkages with the Kalyani Group of companies. The rating further takes into consideration the diversified presence of the company across key geographies both in the domestic and international markets as well as diversification of revenue with its entry in product manufacturing segment, which has also resulted in the improvement in its operating profitability.

Over the past few years, KTFL has managed to pivot from the forging capacity to increased machining capacity and the company is further forward integrating to the product division, delivering the finished auto components. The ratings also factors in the improvement in the capital structure and the leverage profile of the company over the past few fiscals led by capital infusion and accretion of profit to its net worth.

On the industry front, though the domestic automobile sales have softened in FY24 (refer to the period from April 01 to March 31) and further during H1FY25 (refer to the period from April 01 to September 30) due to higher base in FY23, exports from India itself are on the rise due to China plus one policy, government incentivisation and push towards exports, increasing export contribution particularly for drives and transmission components, where KTFL operates. KTFL on a consolidated basis posted revenues of Rs. 2091 crores in FY24 (vs Rs. 1977 crores in FY23) and further at Rs. 1269 crores in H1FY25. The growth momentum has been maintained alongside healthy profitability, as demonstrated by PBILDT margins and PAT margins at 21.3% and 10.06% during FY24 respectively. Given that the plants are already operating at optimum capacity, the company has added significant machining capacity during FY24 with a capex spend of around Rs. 300 crores, which will help the company in catering to the demand over FY25. Additionally, orderbook of more than Rs. 2300 crores to be executed in FY25, provides us comfort in terms of medium-term revenue visibility.

The total debt has increased to Rs. 991.39 crores as on Mar 31, 2024 (vs Rs. 798.22 crores as on Mar 31, 2023) due to the ongoing capex activity (Rs. 300 crores in FY24) and increased working capital borrowings from addition of new capacities. Our debt calculations include lease liabilities, LC acceptances and optionally convertible preference shares (OCPS) in its entirety as debt. Overall gearing and total debt/PBILDT have been 1.10x and 2.41x as on Mar 31, 2024 (vs 1.14x and 2.17x) respectively, interest coverage ratio has been 7.37x for FY24. KTFL has envisaged a capital expenditure of around Rs. 1500 crores during FY25 to FY27. Of the projected capex of Rs. 700 crores, 64% is expected to be done via debt, while for the balance the company is comfortably meet the requirements from internal accruals. Although in case of any shortfall, the same is likely to be supported by fund infusion by the promoters. Separately, the saleability risk for the planned capacity is moderate given the long-standing customer relationships and significant scope to increase the sales in EV segment from relatively new and large-ticket customers.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

The rating strengths are constrained by a large proportion of revenue being derived from the auto segment, thereby exposing the company to inherent cyclicality in the automobile industry, susceptibility of the operating margins to forex risk, and the working capital-intensive nature of operation.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors likely to lead to positive rating action

- Increase in total operating income of the company above Rs. 4500 crores with PBILDT margins at the current levels on a sustained basis
- Improvement in Total Debt/PBILDT to around 1x on sustained basis
- Increase in gross cash accruals leading to lower reliance on debt for capex and working capital management leading to overall gearing below 0.50x on a sustained basis.

Negative factors- Factors likely to lead to negative rating action

- Total operating income falling below Rs. 1,500 crore and PBILDT margins falling below 15% on a sustained basis.
- Deterioration in Total Debt/PBILDT beyond 3.0x for FY25 and beyond 2.5x from FY26 on a sustained basis.
- Deterioration of overall gearing to beyond 1.25x on a sustained basis.
- Gross current assets days beyond 8 months on sustained basis.

Analytical approach: Consolidated

CARE Ratings has considered the consolidated approach. We have factored the benefits derived from its operational, and managerial linkages with the Kalyani group. The list of entities consolidated is mentioned in Annexure 6.

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its market position, which coupled with favourable demand scenario in the export market shall enable it to sustain healthy business and financial risk profiles over the short to medium term.

Detailed description of key rating drivers:

Key strengths

Consistent performance with healthy profitability

KTFL's net sales have grown at a CAGR of 18.67% from Rs. 1374 crore in FY22 to Rs. 1936 crore in FY24. During the same period PBILDT of the company also recorded an equivalent CAGR growth of around 21.17% from Rs. 303.66 crore in FY22 to around Rs. 445.54 crore in FY24. The PBILDT margins have remained healthy in the range in the range of 18-22% during the last five fiscals. During FY24, exports stood at 46% of the revenue generation. CARE Ratings notes that the management of the company expects that the export contribution of the company is likely to show further improvement. KTFL has confirmed orders of more than ₹ 2,300 crore for FY25.

Kalyani group support and assistance:

KTFL was promoted in 1979, at Pune, Maharashtra, by Baba N. Kalyani and is a significant part of the Kalyani Group. The Kalyani Group enjoys its position as one of the market leaders in various business segments with strong emphasis and leadership position in the domestic forging industry, through technology and with over 12,000 strong engineering global workforces. KTFL has management linkages with common leadership under the group companies. It enjoys tremendous benefits in terms of backward and forward integration and KTFL provides diversification benefit to the group. Bharat Forge Limited has been a key player in forged auto components for commercial vehicle (CV) industry, whereas KTFL is becoming a key player in the passenger vehicle components industry. Majority of the raw material of KTFL is procured from another group company Kalyani Steels Limited, which is into manufacturing alloy steel products. KTFL's 100% shareholding is held by the promoter-held investment companies. Furthermore, CARE Ratings notes that as stated by the management, KTFL will get access to the financial assistance from promoters and other Kalyani Group companies, if required.

Long-standing customer relationships with established OEMs and Tier I/II suppliers:

Being part of the Kalyani group, the company has established clientele, both original equipment manufacturers (OEMs) and Tier – I and II component manufacturers. Furthermore, KTFL has a longstanding industry experience as well. Since, KTFL is in manufacturing engine, differential, axle and transmission components products, it has long-term contracts in general. The company also manufactures EV components which is a booming industry. One of the major electric vehicle export customers of KTFL is Dana Automotive which ultimately supplies to Ford Motor Company and Nanjing Weibang Transmission, China.

Wide range of products:

KTFL has nine manufacturing plants, seven in Maharashtra and one in Bhiwadi district of Rajasthan. KTFL is engaged in the forging and machined components business with a current forging operating capacity of over 60,000 metric tonnes. Additionally, KTFL has augmented its machining capacity in FY24 which is a forward integration to the forging capacity. KTFL is also a manufacturer and a supplier of a comprehensive assortment of crankshaft assembly for two-wheelers, automotive crankshaft, connecting rod, hubs for wheel bearing, transmission products and axel components. It focuses majorly on the automotive sector primarily to passenger vehicles (both internal combustion engines and EV engines) in the domestic as well as international markets. KTFL has a small presence in two-wheeler (2W) and three-wheeler (3W) segment.

Increased presence in the electrical vehicle segment

The growth in the EV sector has been a concern for the forging and auto component industries since demand for moving parts used in vehicles may decrease significantly which shall result in unutilised forging capacity. In the following years, the EVs market shall impact the forging and casting industries by more than 60%. KTFL enjoys the first mover advantage in the EV segment and is currently focused on more orders for EV components. CARE Ratings notes that the shift by various countries towards green vehicle shall lead to more export opportunities for KTFL.

Key weaknesses

Majority share of revenue from cyclical automobile industry:

The company derives nearly 90% of the revenue from the automotive segment. As a large proportion of the company's revenue is derived from the auto segment, it exposes the company to the cyclicality of the auto industry in India as well as globally.

Working capital-intensive nature of operations as evinced by high operating cycle

The working capital intensity of the company remains high due to higher inventory and credit period for export orders. The company has an average utilisation of 77% of its fund-based limits and 24% average utilisation (average of trailing 12 months ending July 2024) of its non-fund based limits in order to manage its working capital requirements. During FY24, the inventory levels of the company were at 71 days (PY: 63 days). Gross current asset days have remained high at around 6-8 months, majorly due to credit period being extended of 3-4 months for the export customers. However, given that the company customers are marquee OEMs and Tier-I suppliers, the counterparty credit risk is relatively low.

Project risk

KTFL has envisaged a capital expenditure of around Rs. 1500 crores during FY25 to FY27. Of the projected capex of Rs. 700 crores, 64% is expected to be done via debt, while for the balance the company is comfortably meet the requirements from internal accruals. Although in case of any shortfall, the same is likely to be supported by fund infusion by the promoters. The capex for the next 3 years is majorly planned for the products which have already received approvals with a brief clarity on the size of these orders. The debt coverage ratios to moderate over medium-term owing to Rs. 700 crores capex in FY25. Separately, the saleability risk is relatively low given the long-standing customer relationships and significant scope to increase the sales in EV segment from big-ticket new customers.

Liquidity: Strong

KTFL had cash and liquid investments of ₹ 34.29 crore as on June 30, 2024, and ₹ 61.00 crores as on March 31, 2024. Additional liquidity cushion is available in the form of unutilised lines of credit. During FY24, KTFL had generated a gross cash accrual of ₹ 492 crore. CARE Ratings believes that the projected cash accruals for FY25 are adequate enough to cover its repayment obligations for FY25 amounting to around Rs. 115 crores. The capex of Rs. 700 crores planned in FY25 is to be majorly funded by debt, with balance amount from internal accruals. In case of further shortfall if any, the funds are expected to be arranged by the promoter group.

Assumptions/Covenants Not applicable

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Auto Components & Equipments
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Kalyani Technoforge Limited (KTFL) was incorporated in 1979, at Pune, Maharashtra and was promoted by Baba N. Kalyani. The 100% of the shareholding of KTFL is held by the promoter's investment holding companies. KTFL is currently engaged in the manufacturing of forged and machined components mainly for the automotive sector (passenger vehicles) in the domestic as well as international markets. The company manufactures engine, differential, axle and transmission components. The company has also started manufacturing components for electric vehicles (EV) and has a small presence in two-wheeler (2W) and three-wheeler (3W) segment. KTFL has seven manufacturing plants; six in Maharashtra and one in Bhiwadi district of Rajasthan.

Brief Financials (₹ crore)	FY2023 (A)	FY2024 (A)	H1FY2025 (UA)
Total operating income	1977.32	2091.44	1269.10
PBILDT	393.11	445.54	295.04
PAT	204.88	210.35	146.00
Overall gearing (times)	1.14	1.10	-
Interest coverage (times)	12.20	7.37	12.92

A: Audited UA: Unaudited; Note: these are latest available financial results, Note: Financials have been prepared as per CARE Standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan#		-	-	FY2031	333.90	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	Proposed	150.00	CARE AA-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	735.00	CARE AA-; Stable / CARE A1+
Commercial Paper-Commercial Paper (Standalone)		Not yet placed	-	7 to 365 days	100.00	CARE A1+

Outstanding as on Sep 30, 2024. Note: Rated Term loan of Rs. 3.70 crores from Axis Bank withdrawn basis no due certificate.

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	735.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (31-Aug-23)	-	-
2	Fund-based - LT-Term Loan	LT	333.90	CARE AA-; Stable	-	1)CARE AA-; Stable (31-Aug-23)	-	-
3	Fund-based - LT-Term Loan	LT	150.00	CARE AA-; Stable	-	1)CARE AA-; Stable (31-Aug-23)	-	-
4	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No.	Name of the entity	Extent of consolidation	Rationale for consolidation	Extent of Shareholding as on June 30, 2024	Country of incorporation
A	**Subsidiaries**				
1	Kalyani Transmission Technologies Private Limited	Full consolidation	Subsidiary, Operational & management linkages	51%	India
2	Hibiscus Investment & Finance Private Limited (w.e.f. Jan 05, 2024)			99.99%	India
3	K Delaware Inc			83.30%	United States
B	**Associates**				
4	Sara Plast Private Limited	Equity method	Operational & management linkages	27.29%	India
5	Kalyani Transmission Technologies Limited			25.95%	United Kingdom

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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