Kay Jay Forgings Private Limited

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	149.00	CARE A-; Stable	Upgraded from CARE BBB+; Stable
Short-term bank facilities	1.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Upgrade in ratings assigned to bank facilities of Kay Jay forgings Private Limited (KJFPL) factor in consistent improvement in the company's operational and financial performance led by healthy volumetric growth, on account of improved demand for two-wheelers, increased content per vehicle and high share of business (SOB) with TVS Motor Company Limited (TVSM). Ratings continue to derive strength from company's long track record of operations, experienced management team and its long and established business relationship with reputed original equipment manufacturers (OEMs). Ratings further continue to take comfort from moderate capital structure, adequate liquidity position and healthy return indicators of the company. However, ratings continue to remain constrained by high customer concentration risk, profitability margins susceptible to volatile raw material prices and cyclical nature of the auto component industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations to over ₹1000 crore through diversification to other OEMs and return on capital employed (ROCE) above 15%.
- Improvement in total debt to gross cash accruals (TD/GCA) below 2.5x.
- Improvement in the capital structure with overall gearing below 0.50x respectively.

Negative factors

- Decline in scale of operations with profit before interest, lease, depreciation and tax (PBILDT) margin below 8% on a sustained basis.
- Significant debt-funded capex, resulting in deterioration of overall gearing exceeding 1.20x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity shall sustain its operational and financial performance in the medium term.

Detailed description of key rating drivers:

Key strengths

Consistent growth in scale of operations with stable profitability margins

The company reported year-on-year (y-o-y) growth of 12% in total operating income (TOI) to ₹672.48 crore in FY24 (refers to April 01 to March 31; PY: ₹602.70 crore). There has been a consistent growth in the company's topline in the last four years at a compounded annual growth rate (CAGR) of 21%. This growth was primarily driven by increased demand in the two-wheeler segment, particularly from its major customer, TVS Motor Company Limited (TVSM), which holds ~19% market share in this segment. Volumetric growth of components supplied by KJFPL emanates from SOB of ~90% with TVS. The company expanded its offerings from forged components to entire assembly systems, leading to an increase in the content per vehicle from ₹1500 to ₹2500. Consequently, the company's PBILDT margin also improved to 9.40% (PY: 8.31%), which was also supported by decline in steel prices (primary raw material).

In H1FY25 (refers to April 01 to September 30), the company achieved TOI of ₹372.57 crore and PBILDT margin of 9.87%.

Comfortable return ratios and expected improvement in leverage

The company's return ratios and coverage indicators remained comfortable supported by the sustained increase in scale and profitability in the last four fiscals. The company also reported improvement in interest coverage ratio from 3.87x in FY23 to 4.91x in FY24 and TD/GCA from 5.37x in FY23 to 3.41x in FY24. ROCE improved to 14.32x (PY: 11.73x) in FY24 as a result of increased profitability and reduction in overall debt level. The company's capital structure remained moderate with overall gearing of 1.16x as on March 31, 2024 (PY: 1.61x). Going forward, the financial risk profile is expected to improve further, in view of no debt funded capex in the medium term and reclassification of ₹20 crore of unsecured loan as quasi equity from FY25 onwards following banker's stipulation and KJFPL's undertaking to this effect.

Long track record of operations with an experienced management team and resourceful promoters

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

KJFPL has been promoted by Gopal Krishan Kothari, who has ~4 decades of industry experience and oversees the company's overall business operations. He is assisted by Naveen Behl (Executive Director), who has been involved in the company's day-to-day activities since its inception, and Amit Kothari (son of GK Kothari and joint Managing Director), who manages exports. Directors are assisted by a team of professionals with considerable experience in their respective domains. Promoters have infused need-based funds in the form of unsecured loans to support business requirements periodically. Unsecured loans outstanding from promoters and related parties stood at ₹24.77 crore, as on March 31, 2024 (PY: ₹26.25 crore).

Long and established relationship with clients; albeit high customer concentration
KJFPL specialises in manufacturing forged and machined auto components primarily used in crankshaft assembly. The company has a long-standing relationship with TVS Motor Company Limited (rated 'CARE AA+; Stable/ CARE A1+'), which is its main customer and accounts for ~68% of total sales in FY24. KJFPL enjoys significantly high share of business with TVS of ~90% for forged and machined components supplied. The company has also been in association with Hero Motocorp Limited since inception and makes direct and indirect sales through Bajajsons Limited and Bajaj Motors Limited. A significant portion of KJFPL's products cater to the two-wheeler segment, contributing 74% of its TOI in FY24. While sales are skewed to few customers and segments, KJFPL has mitigated these risks through repeat business from OEMs and its strong relationship with TVS over the years, while expanding its production portfolio and increasing the content per vehicle. KJFPL is engaged in direct exports, which accounted for ~7% of its total income in FY24, to diversify its revenue streams. The company continues to expand into other segments to further mitigate segment concentration risk.

Key weaknesses
Risk associated with fluctuating raw material prices
KJFPL operates in an industry where raw material cost is a major cost driver, (constituting ~55-60% of TOI) and has a significant bearing on the operating margin. Key raw materials for forging are round and cold-rolled (CR) steel sheets, prices of which have been fluctuating due to volatility in global commodity markets. The company has established raw material sourcing arrangement primarily through local suppliers (99.8% of total purchases). KJFPL manufactures many critical components and is able to pass on changes in material prices to its customers with a lag of a quarter, limiting fluctuation risk.

Cyclicality nature of the automotive industry
The automobile industry is cyclical in nature and automotive component suppliers' sales is directly linked to sales of auto OEMs. Furthermore, The auto-ancillary industry is competitive with presence of many players in the organised and unorganised sector. While the organised segment majorly caters to the OEM segment, the unorganised segment mainly caters to the replacement market and tier II and tier III suppliers. The company's product portfolio caters solely to the automobile industry. The company's growth is directly linked to the domestic automotive industry, which in turn, is cyclical and depends on the growth of the economy. The company's ability to further diversify its product portfolio across segments including electric vehicles remains a key monitorable.

Liquidity: Adequate
The company's liquidity is adequate, supported by sufficient cash accruals to repayment obligations, unutilised bank limits and free cash balance. GCA is expected to be ~₹51.81 crore in FY25 against scheduled term loan repayments of ₹21.12 crore. The company has planned capex of ~₹25.00 crore for FY25, which includes maintenance and expansion of the existing plant and establishment of a new plant for Mahindra & Mahindra and Honda Motorcycle. About ₹20 crore has already been incurred for this capex in FY24, while the remaining ~₹5 crore has been envisaged for FY25 (to be funded entirely through internal accruals). The company's operating cycle stood at 57 days in FY24, and its working capital utilisation remained low at ~48% for 12 months ending December 2024.

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
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 & equipment

Incorporated in 1983, KJFPL promoted and managed by GK Kothari. The company is engaged in manufacturing forged and machined auto components, mainly for OEMs in the two-wheeler segment. Small portion of total operating income (~7% in FY24) is derived from exporting four-wheeler components. Initially, KJFPL only supplied forged components, and has now diversified to entire assembly systems. Crankshaft assembly (an engine component for two-wheelers) is a major revenue contributor accounting for 25-30% of company's TOI. The company has six manufacturing facilities (four in Ludhiana, Punjab and two in Hosur, Tamil Nadu) with a combined installed capacity of ~40,000 MT per year for the forging line and ~2.68 crore pieces per year for the machining line, which is currently utilised at 85-90%.

Financial Performance (Rs. Crore)

For the period ended / as at March 31,	2022 (A)	2023 (A)	2024 (A)
Working Results			
Net Sales	457.98	559.98	627.18
Total Operating income	490.71	602.70	672.48
PBILDT	47.12	50.08	63.24
Interest	12.67	13.90	14.58
Depreciation	18.95	21.09	24.02
PBT	19.19	18.18	29.20
PAT (after deferred tax)	14.44	13.70	24.28
Gross Cash Accruals	31.89	33.17	45.97
Financial Position			
Equity Capital/Partners' Capital	1.44	1.44	1.44
Networth	97.01	110.57	134.90
Total capital employed	236.97	293.47	294.07
Key Ratios			
Growth			
Growth in Total income (%)	28.24	22.82	11.58
Growth in PAT (after deferred tax) (%)	370.17	-5.13	77.23
Profitability			
PBILDT/Total Op. income (%)	9.60	8.31	9.40
PAT (after deferred tax)/ Total income (%)	2.94	2.27	3.61
ROCE (%)	13.24	11.73	14.32
Solvency			
Debt Equity ratio (times)	0.84	0.94	0.68
Overall gearing ratio(times)	1.38	1.61	1.16
Interest coverage(times)	3.82	3.87	4.91
Term debt/Gross cash accruals (years)	2.56	3.13	2.00
Total debt/Gross cash accruals (years)	4.19	5.37	3.41
Liquidity			
Current ratio (times)	1.26	1.12	1.16
Quick ratio (times)	0.77	0.66	0.67
Turnover			
Average collection period (days)	52	38	37
Average inventory (days)	52	49	50
Average creditors (days)	40	30	30
Operating cycle (days)	65	57	57

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: ICRA has conducted the review and has classified Kay Jay Forgings Private Limited as "Not Cooperating" vide its press release dated August 01, 2024, considering non-availability of requisite information from the company.

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Details of rated facilities: Please refer Annexure-3

Complexity level of various instruments rated: Annexure 4

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in 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		-	-	31/03/2030	57.50	CARE A-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	91.50	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	1.00	CARE A2+

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	Fund-based - LT-Term Loan	LT	57.50	CARE A-; Stable	1)CARE BBB+; Stable (02-Apr-24)	-	-	-
2	Non-fund-based - ST-BG/LC	ST	1.00	CARE A2+	1)CARE A2+ (02-Apr-24)	-	-	-
3	Fund-based - LT-Working Capital Limits	LT	91.50	CARE A-; Stable	1)CARE BBB+; Stable (02-Apr-24)	-	-	-

LT: Long term; ST: Short term

Annexure-3: Details of Rated Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	HDFC Bank Ltd.	26.69	Multiple loans
2.	Bajaj Finance Ltd.	11.22	Multiple loans
3.	Axis Bank Ltd.	8.74	Multiple loans
4.	Federal Bank	3.35	Multiple loans
5.	Proposed	7.50	Multiple loans
	Total	**57.50**	

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	HDFC Bank Ltd.	31.00	Repayable on demand
2.	Bajaj Finance Ltd.	25.00	Repayable on demand

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
3.	Federal Bank	21.00	Repayable on demand
4.	Standard Chartered Bank	10.00	Repayable on demand
5.	Axis Bank Ltd.	4.50	Repayable on demand
	Total	**91.50**	

Total Long-Term Facilities: Rs. 149.00 crore

2. Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	HDFC Bank Ltd.	1.00
	Total	**1.00**

Total Short-Term Facilities: Rs.1.00 crore

Total Facilities (1. A+1.B+2.A) : Rs.150.00 crore

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

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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(This follows our Press Release for the entity published on February 03, 2025)

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the

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