



**Press Release**  
**KSH AUTOMOTIV E PRIV ATE LIMITED**  
**June 13, 2023**  
**Rating Assigned**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BB+   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

**Rating Rationale**

Acuite has assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 50.00 Cr bank facilities of KSH Automotive Private Limited (KSHAPL). The outlook is '**Stable**'.

The rating factors in the strong operational, managerial and financial linkages of KSHAPL with South Korea-based, Saehan Industrial Co. Ltd, which holds a 100 per cent equity stake in the company. The rating takes into account the improvement in the operational performance of the company in FY2023 supported by an uptick in the automotive demand recovery. The successful completion of the capacity expansion, augurs well for KSHAPL's growth prospects. The technical collaboration with overseas players have enabled the company to enhance its product development capabilities and ability to meet quality, cost and delivery parameters. The rating also derives comfort from the vast experience of its promoters and the parent's support in the form of equity infusion which ensures debt servicing in a timely manner.

The ratings are, however, constrained by the moderation in the company's operating margins owing to foreign exchange fluctuations. In addition, with significant foreign currency denominated debt-funded capacity addition in the past three years and associated high repayments, the company's coverage indicators remained modest in FY2023. The ratings also remain constrained due to high customer concentration as the company derives almost 80-85% of the business from the passenger vehicles (PV) segment of KIA India. Thus, the company's earnings remain vulnerable to any supply or demand disruptions in the PV segment and cyclicity in the overall automotive industry.

**About the Company**

KSH Automotive Private Limited (KSHAPL), incorporated in 2017, is a wholly owned subsidiary of South Korea-based Saehan Ind. Co., Ltd. The company is engaged in the manufacturing, designing, engineering, developing, fabricating, assembling and sale of car automotive sheet metal body components, mainly for KIA motors in India. The Company commenced its commercial production since July 2019. The manufacturing plant is located at Penukonda in Andhra Pradesh. The present directors of the company are Mr. Yeonsoo Kim, Mr. Konandur Shrinivasa Dayananda and Mr. Yongsung Kim.

**Analytical Approach**

Acuite has considered the standalone business and financial risk profile of KSHAPL to arrive at the rating.

**Key Rating Drivers**

## **Strengths**

Strong parentage; experienced management team

KSHAPL is a 100 per cent subsidiary of South Korea-based, Saehan Industrial Co. Ltd. SICL has a track record of over five decades in the Korean market. Acuité derives comfort from the long experience of the directors, as KSHAPL's operations are guided by a strong management team of Mr. Yeonsoo Kim, Mr. Konandur Shrinivasa Dayananda and Mr. Yongsung Kim with extensive experience in the OEM industry, which has facilitated relationships with KIA motors in the domestic market and ensure repeat orders. The company benefits from the technological support and the management oversight from its parent company, besides having access to their product portfolio. Further, its cash conversion cycle is supported by the extended credit period by the parent company. Acuité expects that KSHAPL would continue to remain a key delivery centre for KIA motors and benefit from access to Saehan Industrial Co. Ltd's technical expertise and capabilities.

### **Adequate earnings profile despite nascent stage of operations, buoyed by expanding market share of KIA motors**

An improving market share across key product segments and a steady addition of new product segments of KIA motors in the Indian market, have helped KSHAPL improve its revenues to ~Rs. 964.22 Cr in FY2023 (Prov) as against Rs. 328.19 Crs in FY2020, increasing at a CAGR of ~31 per cent over FY20-FY23. KSHAPL derives nearly ~73 per cent of its revenues from domestic automobile original equipment manufacturers (OEM) like KIA India Private Limited, while about 20-25 per cent are derived from domestic aftermarket. With recovery in demand from automobile industry coupled with price hike, revenue grew by ~45 per cent during FY2023. Demand across automobile segments is expected to register growth over the medium term resulting in improvement in domestic offtake. KSHAPL is well placed to capitalise on this given its high share of demand from OEM. Further, the stability in revenue is backed by an unexecuted strong order book position to the tune of about Rs.1247 Cr as on 31st March, 2023 from KIA India Private Limited providing moderate revenue visibility over the medium term. Acuité believes that positive revenue growth expected would aid the business risk profile going forward.

### **Efficient working capital management**

The efficient working capital management of the company is marked by comfortable Gross Current Assets (GCA) of 89 days in as on March 31, 2022 which further improved to less than 50 days as on March 31, 2023 (Prov) owing to improvement in inventory holding and debtor's management. The debtor days stood low at 26 days as on March 31, 2023 (prov) owing to prompt realization from the key client KIA India. The inventory holding period also improved significantly in FY23 to only 14 days (prov) compared to 34 days due to Just-In-Time (JIT) model which reduces the inventory risk against the vulnerability due to cyclical nature of steel industry. Further, its cash conversion cycle is supported by the extended credit period by the parent company as reflected through creditor period of 110 days (prov) in FY23. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from efficient collection and comfortable inventory holding mechanism over the medium term.

### **Weaknesses**

#### **Moderate financial risk profile**

The company's financial risk profile is moderate with a gearing of ~0.94 times (prov) on a reported net worth of Rs. 255.40 Cr (prov) as on March 31, 2023 (1.41 times as on March 31, 2021), on account of ploughing back of profits and regular equity infusion since FY2019. The capitalisation profile was strengthened on the back of more than ~Rs. 250.00 Cr equity infusion till FY23, thereby giving visibility in terms of meeting the growth targets of KSHAPL. As a growing company, KSHAPL has raised foreign currency debts to meet its business expansion needs, exposing the profitability to foreign exchange fluctuations. The continuous forex loss both in FY22 and FY23, in absence of adequate hedging policy led to shortfalls in cash accruals which further resulted in a low DSCR of only unity in FY23 (prov) followed by increased repayment towards existing loans. However, Acuité believes the company may tide over the exigency by

using its financial flexibility to borrow fresh debt (or equity) not only to refinance maturing obligations, but also to finance part of the capacity expansion going forward. Acuité expects the company's ability to replace its existing debt with fresh funds may act as a balancing factor to maintain a prudent capitalisation profile supported by regular equity infusions at the parent level, in line with the growth plans.

### **Foreign currency denominated loans inadequately hedged rendering profitability vulnerable to adverse forex movements**

The company is exposed to currency risk, as a major part of the term debt is denominated in foreign currency. Also, KSHAPL imports about ~10 per cent of its raw materials from South Korea, without hedging its foreign currency and hence, the profitability remains vulnerable to any adverse movements in foreign currency rates. Hence, the operating margin declined to ~5.36 per cent in FY2023 (prov) as compared to 7.23 per cent in the previous year on account of significant forex loss. However, the PAT margin of the company is expected to improve marginally in FY23, on the back of reduced finance cost. Going forward, KSHAPL's hedging arrangement for the foreign currency-denominated debt would be key monitorable.

### **Exposure to cyclicity in auto sector; large part of revenues come from PV segment**

The company derives almost 80-85 per cent of its revenues from the PV segment. Hence, any adverse impact on PV demand owing to any future pandemic waves or semiconductor shortages would have detrimental impact on the company. Moreover, the PV portfolio is concentrated with the largest customer, KIA India, contributing ~75% of the total sales. As the company derives most of its revenues from the domestic automotive market, its earnings remain susceptible to the inherent cyclicity of the sector.

#### **Rating Sensitivities**

- Ability to maintain scale of operations while improving profitability margins significantly
- Effectively managing the working capital requirements and foreign exchange fluctuations

#### **Material covenants**

None

#### **Liquidity Position: Adequate**

KSHAPL's overall liquidity position remains adequate because of continuous equity infusion and high financial flexibility due to SICL's strong parentage are expected to keep its liquidity at comfortable levels. Even though, the net cash accruals stood low at Rs.42.92 Cr as on March 31, 2023 (prov) as against long term debt repayment of Rs. 51.22 Cr. over the previous year, the regular equity infusion has ensured the timely debt servicing. The average utilisation of the fund-based limits stood at ~85.39 per cent during the last 6 months ended April 2023. However, the current ratio stood low below unity. The working capital management of the company is prudent as reflected by Gross Current Assets (GCA) of ~45 days as on March 31, 2023 (prov) supported by low debtor and inventory holding period. Although the debt repayment obligations are sizeable in the near to medium term, Acuité expects the company to meet these through its cash flow generation, as operations scale-up gradually along with the support from the parent company.

#### **Outlook: Stable**

Acuité believes that the outlook on KSHAPL will be 'Stable' over the medium term on account of strong operational, managerial and financial linkages with the parent company and experienced management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile.

**Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	648.24	483.13
PAT	Rs. Cr.	2.29	1.11
PAT Margin	(%)	0.35	0.23
Total Debt/Tangible Net Worth	Times	1.41	1.79
PBDIT/Interest	Times	5.41	2.95

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History :

Not Applicable

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BB+   Stable   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Srijita Chatterjee Lead Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:srijita.chatterjee@acuite.in">srijita.chatterjee@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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