

Press Release

Kineco Kaman Composites India Private Limited

JUNE 11, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE AA (SO) and ACUITE BBB Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE AA(SO)**' (**read as ACUITE double A Structured Obligation**) and '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.18.25 crore (external commercial borrowings and overdraft) and Rs.16.00 crore bank facilities respectively of Kineco Kaman Composites India Private Limited (KKCI). Further, Acuité has assigned short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.5.75 crore bank facilities of KKCI. The outlook is '**Stable**'.

The rating for the External Commercial Borrowings (ECB) and Overdraft facility (OD) considers the standalone credit profile of KKCI and also factors in the credit enhancement in the form of a corporate guarantee for these facilities from Kaman Aerospace Group Inc., USA. Any change in the credit profile of the guaranteeing entity will be a key rating sensitivity factor.

The ratings for the other bank facilities i.e. cash credit, term loan, letter of credit and bank guarantee are based on the assessment of the standalone credit profile of KKCI.

KKCI, incorporated in 2012 is a joint venture (51:49) between Kineco Limited (KL), subsidiary of Indo National Limited and Kaman Aerospace Group Inc. (KAGI), a subsidiary of Kaman Corporation, USA. KKCI commenced operations in FY2014-15 and is engaged in the manufacture of advanced composite structures for aerospace, defence, medical imaging and other industries using the latest carbon fibre materials and autoclave curing technology. Its products include composite structural parts for modern aircrafts and helicopters alongwith parts for space crafts. The manufacturing unit admeasuring 48,000 sq. ft. is located in Goa. The company derives around 95.12 percent revenue from export to USA and the rest generated from domestic customers. KKCI imports around 88.74 percent of its purchases from USA, France and other European countries.

Key Rating Drivers

Strengths

- Strong Parentage and experienced management:**

KKCI, incorporated in 2012 is a joint venture between KL and KAGI. The management team consists of directors nominated from KL and KAGI. Mr. Shekhar R. Sardessai from KL is the Chief Managing Director, while Mr. Sanjay Khatau Asher, Mr. Pottipati Adithya, Mr. James Carl Larwood Jr. are other Directors. The management team collectively possesses more than three decades of experience in the manufacturing of composite products for railways, telecommunication, water treatment, aerospace and defence industries. The management is supported by qualified and experienced professionals.

Kaman Aerospace Group Inc. is a subsidiary of Kaman Corporation (KC), USA founded in 1945 with headquarters in Bloomfield, Connecticut. The company is listed on the New York Stock Exchange. KAGI drives the aerospace segment of KC that produces and markets proprietary aircraft bearings and components, super precision, miniature ball bearings, complex metallic and composite aero

structures among others for the U.S. and allied militaries. The principal customers include the U.S. military, Sikorsky Aircraft Corporation, The Boeing Company, Airbus, Lockheed Martin, Raytheon and Bell Helicopter. Kaman Corporation and its subsidiaries reported net profit of \$49 million on net sales of \$1.8 billion for CY2017 with operations spread across 50 countries all over the world.

Kineco Limited (KL), was initially incorporated in 1994 as 'Mass Kinematics Private Limited' and later renamed 'Kineco Private Limited' in 2001. Subsequently, in 2016 the constitution of the company was changed to public limited and renamed 'Kineco Limited'. Indo National Limited acquired around 51 percent stake in the company through its wholly owned subsidiary, Helios Strategic Investments (India) Limited. KL is engaged in the manufacture of advanced composite parts for industries including aerospace & defence, railways, automotive and process equipments. KL caters to a reputed client base including Bharat Heavy Electrical Limited, Integral Coach Factory, Bhabha Atomic Research Centre and Armament Research and Development Establishment (Pune).

KKCI receives financial and operational support from its parent companies. The company also benefits from the on-going operational support provided by KAGI which has an established market position in the global aerospace and defence sector. Further, KAGI has extended corporate guarantee against the ECB and OD facility sanctioned to KKCI. It has also received funding support from both, the parent companies in the form of unsecured loan and equity infusion during the period under study for meeting working capital requirement and purchase of capital assets. KL has infused equity capital to the tune of Rs.2.56 crore and Kaman Aerospace Inc. pumped in around Rs.4.48 crore during FY2017.

Hence going forward, the continued operational support and change in the credit profile of the US-based parent company, Kaman Aerospace Group Inc. will be the key rating sensitivities.

- **Healthy revenue visibility albeit on a modest revenue base:**

The company has reported modest growth in operating income as same stood at Rs.35.97 crore for FY2018 (Provisional) as against Rs.29.27 crore in the previous year. The growth can be attributed to the healthy order book position and improvement in execution rate by the company. Further, the company has strong revenue visibility over the medium term on account of the long term nature of contracts with reputed aerospace companies and the large value of unexecuted orders (~Rs.98.55 crore) expected to be completed over the next three years. The company also reported significant improvement in net cash accruals which stood at Rs.10.80 crore for FY2018 (Provisional) as against Rs.4.53 crore in the previous year.

Weaknesses

- **Customer concentration risk**

KKCI is exposed to customer concentration risk since around 85 percent of the operating income in FY2017 was derived from a single customer, BAE Systems Inc., USA. Further, a large portion of the unexecuted order is from BAE Systems Inc. The company also caters to other players including Hindustan Aeronautics Limited, Vikram Sarabhai Space Centre and Kaman Composites UK Limited which operate in the defence, aerospace and marine industries. Hence, changes in procurement policy of BAE Systems Inc., USA or credit terms with vendors can have a significant bearing on the performance of the company and the credit rating.

- **Significant near-term debt servicing obligations**

The company has significant external debt obligation to the tune of Rs.9.72 crore falling due in FY2019. Considering the expected ramp-up in the scale of operations, Acuité believes that KKCI may require a rollover of the impending debt obligation or external funding support. In the event of challenges in arranging for a rollover or additional funding, the company's liquidity profile could be impacted. Going forward, the continuance of support from the parents will be a key rating sensitivity factor.

- **Working capital intensive operations**

The operations of the company are working capital intensive as the gross current assets (GCA) stood at 165 days for FY2018 (Provisional) as against 175 days in the previous year. The stretched GCA days are on account of high inventory days of 104 for FY2018 (Provisional) as against 131 in the previous year. The inventory mainly includes raw material and work-in-process inventory. The company needs to maintain high inventory due to the technical nature of products. However, the liquidity position is comfortable with average cash credit limit utilisation at ~10 percent during the last six months ended as on 30 April, 2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the KKCI for arriving at the rating.

Outlook: Stable

Acuité believes that KKCI will maintain a 'Stable' outlook in the medium term given the extensive experience of the management in the aerospace industry. The outlook may be revised to 'Positive' in case of significant increase in net cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant decline in net cash accruals or deterioration in the liquidity profile due to higher than expected working capital requirement or major debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	35.97	29.27	21.26
EBITDA	Rs. Cr.	11.17	5.66	0.99
PAT	Rs. Cr.	9.39	3.36	(2.25)
EBITDA Margin	(%)	31.04	19.32	4.66
PAT Margin	(%)	26.10	11.49	(10.59)
ROCE	(%)	59.27	36.83	0.61
Total Debt/Tangible Net Worth	Times	0.97	16.30	(1.97)
PBDIT/Interest	Times	11.68	4.46	0.47
Total Debt/PBDIT	Times	0.86	2.76	16.26
Gross Current Assets (Days)	Days	165	175	169

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <http://www.acuite.in/view-rating-criteria-20.htm>
- Structured transactions – <https://www.acuite.in/view-rating-criteria-29.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00#	ACUITE BBB / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00^	ACUITE BBB / Stable
External Commercial Borrowings (ECB)	Not Applicable	Not Applicable	December, 2018	9.72	ACUITE AA (SO)/ Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	8.53	ACUITE AA (SO)/ Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A3+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3+

#Includes sublimit of Packing Credit of Rs. 3.00 crore.

^Includes sublimit of Capex Letter of Credit of Rs. 8.00 crore.

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About Acuité Ratings & Research:

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