Change in Rating Symbol

September 16, 2019

Kineco Kaman Composites India Private Limited

Bank Facilities Rated*	Rs. 7.88 Cr
Long Term Rating	ACUITE AA- (CE)/ Stable

*External Commercial Borrowings

Pursuant to SEBI Circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019 there is a revision in the rating symbol. The change to 'CE' suffix / removal of 'SO' suffix for the rated instrument(s) is not to be construed as any change in the rating or Acuité' s credit opinion on the said instrument(s). The previous rating rationale is appended herewith for reference.

For the background note, please visit: https://www.acuite.in/pdf/General%20Communication%20For%20Website%20(1).pdf

Criteria for assigning ratings with 'SO' suffix: https://www.acuite.in/view-rating-criteria-48.htm

Criteria for assigning ratings with 'CE' suffix: https://www.acuite.in/view-rating-criteria-49.htm

Press Release

Kineco Kaman Composites India Private Limited

August 29, 2019

Rating Reaffirmed, Downgraded and Withdrawn

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 reaffirmed long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and the short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs.32.12 crore domestic bank facilities of Kinect Kaman Composites India Private Limited (KKCL). Acuité has downgraded long term rating to **'ACUITE AA-(SO)' (read as ACUITE double A Minus Structured Obligation)** from **'ACUITE AA(SO)' (read as ACUITE double A Structured Obligation)** on the Rs.7.88 crore External Commercial Borrowing (ECB) facility of KKCL (guaranteed by US-based parent company, Kaman Aerospace Group INC). The outlook is '**Stable'**.

Acuité has also withdrawn long term rating of **'ACUITE AA (SO)' (read as ACUITE double A Structured obligation)** on Rs.8.53 crore bank facilities of KKCL as the said facility has been discontinued and the company has furnished documents in this regard.

Acuité rating for the ECB facility of Rs.7.88 crore (outstanding $11.25 million as of June, 2019) has been driven by corporate guarantee from US-based parent, Kaman Aerospace Group Inc., wholly-owned subsidiary of Kaman Corporation, USA (KC). Since Kaman Aerospace Group Inc.'s credit profile has undergone downward revision by one notch by international rating agency, following these updates, Acuité has also revised downward the rating on ECB facility one notch to ACUITE AA-(SO).

About the Corporate Guarantor- Kaman Corporation Group

Kaman Corporation, headquartered in Bloomfield, Connecticut, was incorporated in 1945. It is a diversified company that conducts business in the aerospace and distribution markets. The company is listed on the New York Stock Exchange. Kaman Aerospace Group Inc. (KAGI) is a wholly owned subsidiary of Kaman Corporation, 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 has its operations spread across 50 countries all over the world. For the CY2018, KC reported consolidated operating income of ~USD 1,875 Bn and PAT of ~USD 54 Bn. The net worth stood healthy at ~USD 196Bn.

Recently this group announced its plan to divest its distribution segment that accounted for about 61 per cent of its revenue and 35 per cent of its operating profit in CY2018. This is likely to have significant moderation in the size of the group and impact its future credit profile.

About the Company- KKCL

KKCL, 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. KKCL 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 is located in Goa. The company derives around 95 percent revenue from export to USA and the rest generated from domestic customers. KKCL imports around 75 percent of its purchases from USA, France and other European countries.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KKCL for arriving at the rating on the rupee denominated bank facilities and for the ECB facility, Acuité has considered the supports from the high rated US-based parent company in the form of corporate guarantee.

Key Rating Drivers

Strengths

- **Strong parentage and experienced management:**

KKCL, 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 and Mr. Richard Roman Barnhart are the 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 ably 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 has its 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. In 2016 Indo National Limited acquired around 51 percent stake in the company through its wholly owned subsidiary, Helios Strategic Investments (India) Limited and subsequently, the constitution of the company was changed to public limited and renamed 'Kineco 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, Bhaba 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 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.

Acuité believes that going forward, the continued operational support or change in the credit profile of the US-based parent company, Kaman Aerospace Group Inc. will continue to be the key rating sensitivities.

- **Strong financial risk profile coupled with healthy revenue growth**

The financial risk profile of the company stood healthy as reflected in improvement in networth and roll over of External Commercial Borrowing (ECB) repayment obligations. The tangible networth has improved significantly to Rs.22.50 crore as on March 31, 2019 as compared to Rs.10.51 crore as on 31st March, 2018 and Rs.0.98 crore as on March 31, 2017. The improvement in the networth is mainly on account of healthy EBITDA margins reported during FY2019 and FY2018 along with steady revenue growth. The debt to equity position has been stable at 0.97 times as on March 31, 2019 and March 31, 2018. During FY2019, KCCL took additional loan of Rs.7.22 crore for capital expenditure. The return from this capex will accrue from mid FY2020. Further, the utilization of the short term borrowings during FY2019 has remained low as the company mainly rely on internal accruals and customer advances. The Total Outside Liabilities to Tangible networth improved to 2.08 times as on 31 March, 2019 from 4.75 times in the previous year. Debt service coverage ratio (DSCR) declined to 7.79 times for FY 2019 from 11.04 times in the previous year as the ECB repayment commenced from quarter ended March 31, 2019. The interest coverage ratio (ICR) stood at 15.14 times for FY 2019 as against 12.04 times in the previous year.

Further, the revenue of the company y has grown at a CAGR of 66.79 per cent over the last four years under study. The revenue for FY2019 stood at Rs.46.62 crore showing a growth of 29.61 percent over the previous year. The company has moderate order book position of ~Rs.62.27 crore executable over a period of one to two years, providing moderate revenue visibility over the near term.
The company procures ~75 per cent of its total raw material requirements, while export constitutes ~95 per cent of its total sales, thereby providing a natural hedge to major extent.

Weaknesses

- **Working capital intensive nature of operation**
  The operations of the company are working capital intensive reflecting from high gross current assets (GCA) days of 157 for FY2019 as against 165 in the previous year. The stretched GCA days are on account of high inventory days of 103 for FY2019 as against 104 in the previous year. The company needs to maintain high inventory due to the technical nature of products and it mainly includes raw material and work-in-process inventory.

- **High customer concentration**
  KKCI continues to be exposed to high customer concentration risk since ~95 percent of the operating income in FY2018 and FY2019 is 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. KCCI is expanding its customers base to other countries as well, however, BAE Systems Inc., USA will continue to dominate the customer concentration risk.

Liquidity Position

The liquidity position is strong with average cash credit limit utilisation of ~ 70 percent during the last six months ended as June 2019. The company has rolled over its ECB loan into quarterly installments instead of bullet repayment thus providing liquidity cushion for operating expenses. The Net Cash Accruals to Total Debt stood at 0.63 times for FY 2019 (Provisional). The company has maturing debt obligation in the range of Rs. 6.39-1.54 crore over FY2020-FY2022. Further, the liquidity is well supported by healthy customer advances. The customer advance stood at Rs.19.64 crore as on 31st March, 2019 (Provisional) which has been maintained in the form of fixed deposits.

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 and established relationship with reputed customers. The outlook may be revised to 'Positive' in case of significant improvement in net cash accruals while managing its working capital cycle efficiently. 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	46.62	35.97	29.27
EBITDA	Rs. Cr.	13.75	11.13	5.66
PAT	Rs. Cr.	12.20	9.38	3.36
EBITDA Margin	(%)	29.48	30.95	19.32
PAT Margin	(%)	26.17	26.08	11.49
ROCE	(%)	47.38	59.05	36.83
Total Debt/Tangible Net Worth	Times	0.97	0.97	16.30
PBDIT/Interest	Times	15.14	12.04	4.46
Total Debt/PBDIT	Times	1.41	0.86	2.76
Gross Current Assets (Days)	Days	157	165	175

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-17.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Securitized Transaction -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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Jun-2018	Cash Credit	Long Term	6.00#	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	10.00^	ACUITE BBB / Stable (Assigned)
	External commercial borrowings (ECBs)	Long Term	9.72	ACUITE AA (SO) / Stable (Assigned)
	Overdraft	Long Term	8.53	ACUITE AA (SO) / Stable(Assigned)
	Letter of Credit	Short Term	2.25	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Assigned)

*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 (Reaffirmed)
Term loans	March, 2018	Not Applicable	Feb, 2026	10.00^	ACUITE BBB / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A3+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3+ (Reaffirmed)
External commercial borrowings (ECBs)	Nov, 2013	Not Applicable	Dec, 2020 (Revised from March, 2019)	7.88	ACUITE AA-(SO)/ Stable (Downgraded from ACUITE AA(SO)/ Stable)
Overdraft	Not Applicable	Not Applicable	Not Applicable	8.53	ACUITE AA (SO) (Withdrawn)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	10.37	ACUITE BBB/Stable (Reaffirmed)

#Includes sublimit of Packing Credit of Rs. 6.00 crore.
^Includes sublimit of Capex Letter of Credit of Rs. 3.23 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Heads- Corporate and Infrastructure Sector Ratings Tel: 022 49294041 aditya.gupta@acuite.in Bhanupriya Khandelwal Analyst - Rating Operations Tel: 022-49294054 bhanupriya.khandelwal@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.