Press Release

Kineco Kaman Composites India Private Limited

November 26, 2020

Rating Upgraded & Reaffirmed

Total Bank Facilities Rated*	Rs. 38.70 Cr.
Long Term Rating	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)
Total Bank Facilities Rated*	Rs.1.30 Cr.
Long Term Rating	ACUITE AA-(CE)/Stable (Reaffirmed)

** Refer Annexure for details*
*** Credit Enhancement in the form of corporate guarantee by US based parent company Kaman Aerospace Group Inc.*

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB+**' **(read as ACUITE triple B plus)** from '**ACUITE BBB**' **(read as ACUITE triple B)** and the short-term rating to **'ACUITE A2' (read as ACUITE A two)** from **'ACUITE A3+' (Read as ACUITE A three plus)** on the Rs. 38.70 Cr bank facilities of Kineco Kaman Composites India Private Limited. The outlook is **'Stable'**.

Further, Acuité has reaffirmed the long-term rating at **'ACUITE AA-(CE)' (read as ACUITE double A minus (Credit Enhancement))** on the Rs.1.30 Cr bank facilities of Kineco Kaman Composites India Private Limited. The outlook is **'Stable'**. Acuité rating for the ECB facility of Rs.1.30 Cr (outstanding $1,87,500 as of November, 2020) has been driven by corporate guarantee from US-based parent, Kaman Aerospace Group Inc., wholly-owned subsidiary of Kaman Corporation, USA (KC).

The rating upgrade is based on continued improvement in the operations reflected on the revenue growth at a CAGR of ~22.9 percent for the last two years, from FY2018 to FY2020. The profitability margins of the company have been in the range of ~30 to 31 percent for the said period. The improvement in the operational performance is influenced by a healthy order book position and planned expansion into diverse customer bases.
Moreover, the company has also been maintaining a strong financial risk profile coupled with strong liquidity measures as demonstrated by its healthy customer advances parked as fixed deposits coupled ample unutilized bank limits which are utilised judiciously. Further, the rating on the ECB facility has been maintained at the same level on account of last installment that will be repaid by December, 2020 constrained by revised rating of US based parent company by the international rating agency.

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 aerostructures 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 CY2019, KC reported consolidated operating income of ~USD 761 Bn and PAT of ~USD 209 Bn. The net worth stood healthy at ~USD 196Bn. Recently, this group has divested 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 – Kineco Kaman Composites India Private Limited
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, defense, 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 along with 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 aerostructures 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 & defense, railways, automotive and process equipment. 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 defense 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 the company is expected to benefit in term of operational performance on account of experienced management and being a part of a strong parent company.

- **Strong financial risk profile coupled with improving revenue and profitability growth**

  The financial risk profile of the company stood healthy as reflected in the improvement in networth and roll over of External Commercial Borrowing (ECB) repayment obligations. The tangible networth has improved significantly to Rs.32.81 Cr as on March 31, 2020 as compared to Rs.22.50 Cr as on 31st March, 2019. The improvement in the networth is mainly on account of healthy EBITDA margins reported during FY2020 and FY2019 along with steady revenue growth. The debt to equity position has been stable at 0.62 times as on March 31, 2020. Further, the utilization of the short-term borrowings during FY2020 has remained low as the company mainly rely on internal accruals and customer advances. The Total Outside Liabilities to Tangible networth improved to 1.31 times as on 31 March, 2020 from 2.08 times in the previous year. Debt service coverage ratio (DSCR) declined to 1.79 times for FY 2020 from 7.79 times in the previous year. The decline in DSCR levels is majorly on account of the commencement of repayment of ECB Q4FY2019. The interest coverage ratio (ICR) stood at 10.78 times for FY 2020 as against 10.80 times in the previous

year.
Further, the revenue of the company has grown at a CAGR of 22.98 per cent over the last two years under study. The revenue for FY2020 stood at Rs.54.40 Cr showing a growth of 17 percent over the previous year. The company has moderate order book position of ~Rs.60 Cr executable over a period of one year, 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 a major extent.

Weaknesses

- **Working capital intensive nature of business**
  The operations of the company are working capital intensive reflecting from high gross current assets (GCA) days of 159 for FY2020 as against 157 in the previous year. The stretched GCA days are on account of high inventory days of 101 for FY2020 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 ~87 percent of the operating income in FY2019 and FY2020 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 defense, 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.

Rating Sensitivities

1. Sustained growth in the operations with sustained improvement in the profitability margins
2. Impact on liquidity profile on account of higher than expected working capital requirements

Liquidity: Strong

The liquidity position is strong with average cash credit limit utilisation of ~ 30 percent during the last six months ended as September, 2020. The repayment against ECB loans ends in December, 2020 thereby ensuring incremental savings. The Net Cash Accruals to Total Debt stood at 0.62 times for FY 2020. The company has maturing debt obligation in the range of Rs. 1.79 Cr over FY2021-FY2023. Further, the liquidity is well supported by healthy customer advances. The customer advance stood at Rs.16.85 crore as on 31st March, 2020, 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 a significant improvement in net cash accruals while managing its working capital cycle efficiently. Conversely, the outlook may be revised to 'Negative' in case of a 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	54.40	46.62
PAT	Rs. Cr.	10.81	12.20
PAT Margin	(%)	19.87	26.17
Total Debt/Tangible Net Worth	Times	0.62	0.97
PBDIT/Interest	Times	10.78	10.81

Status of non-cooperation with previous CRA

Not Available

Any other information
Not Applicable
Assessment of Adequacy of CE Structure
Acuité has carried out the assessment of the adequacy of the credit enhancement structure and has found the structure adequate under various stress scenarios.

Any Material Covenants
1. DSCR > 2.06x
2. ICR > 3.91x
3. FACR: 1.80x
4. Debt/EBITDA < 2.71x

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Explicit Credit Enhancements - https://www.acuite.in/view-rating-criteria-49.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Aug-2019	Cash Credit	Long Term	6.00#	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	10.00^	ACUITE BBB/Stable (Reaffirmed)
	External Commercial Borrowings (ECB)	Long Term	7.88	ACUITE AA- (SO)/Stable (Downgraded)
	Overdraft	Long Term	8.53	ACUITE AA (SO) (Withdrawn)
	Proposed	Long Term	10.37	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	2.25	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	3.5	ACUITE A3+ (Reaffirmed)
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 (ECB)	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	3.5.00	ACUITE A3+ (Assigned)

#includes sublimit of packing credit of Rs.6.00 Cr
^includes sublimit of capex LC of Rs.3.23 Cr

***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 (Upgraded)

Term Loan	20-11-2018	10.50%	26-02-2026	10.00^	ACUITE BBB+/Stable (Upgraded)
External Commercial Borrowings (ECB)	Nov, 2013	Not Applicable	Dec, 2020	1.30	ACUITE AA-(CE)/Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	16.95	ACUITE BBB+/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A2 (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A2 (Upgraded)

#includes sublimit of packing credit of Rs.6.00 Cr
^includes sublimit of capex LC of Rs.3.23 Cr

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research 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 8,000 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.