

Press Release

Kineco Kaman Composites India Private Limited

February 23, 2022



Rating Reaffirmed and Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.30	ACUITE AA- CE Reaffirmed & Withdrawn	-
Bank Loan Ratings	34.25	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	5.75	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	40.00	-	-
Total Withdrawn Quantum (Rs. Cr)	1.30	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB+**' (read as **ACUITE Triple B plus**) and the short-term rating of '**ACUITE A2**' (read as **ACUITE A Two**) on the Rs.40.00 Cr bank facilities of Kineco Kaman Composites India Private Limited (KKCI). The outlook is 'Stable'. Further, Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE AA- (CE)**' (read as **ACUITE Double A minus (Credit Enhancement)**) on the Rs.1.30 Cr bank facilities of KKCI. The withdrawal takes into account the repayment of the facility along with No Due certificate received from the banker. Further, the withdrawal is in accordance with Acuite's withdrawal policy. Acuite's rating on the ECB facility of Rs.1.30 Cr was driven by corporate guarantee from the US-based parent – Kaman Aerospace Group Inc. (KAGI), a wholly-owned subsidiary of Kaman Corporation Inc. (KC), USA.

Rationale for Rating Reaffirmation

The rating reaffirmation takes into account the strong parentage of KKCI and strong financial risk profile on back of stable operating performance. However, some deterioration has been observed in KKCI's operating performance due to spread of COVID-19 in FY21. The rating also draws comfort from KKCI's strong liquidity profile. The rating, however, continues to remain constrained by working capital intensive nature of operations and high customer concentration risk with more than 75 per cent of the revenues being derived from a single reputed US-based customer. KKCI's ability to increase its scale of operations by maintaining a healthy order book execution pace while maintaining its liquidity position without any significant stretch in its working capital, shall remain a key rating sensitivity.

About the Company

KKCI, incorporated in 2012, is a joint venture (51:49) between Kineco Limited (KL), subsidiary of Indo National Limited (INL) and KAGI, a subsidiary of KC, USA. KKCI commenced its operations in FY15 and is engaged in manufacturing 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 along with parts for space crafts. The manufacturing unit is located in Goa. The company derives more than 75 per cent of its revenue from export to

USA and the rest generated from domestic customers. KKCI imports around 75 per cent of its purchases from USA, France and other European countries.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KKCI for arriving at the rating on the rupee denominated bank facilities.

Assessment of Adequacy of CE structure

Not applicable as the instrument with the CE rating has been withdrawn

Key Rating Drivers

Strengths

Strong parentage and experienced management

KKCI, incorporated in 2012 is a joint venture between KL and the US-based KAGI. The management team consists of directors nominated from KL and KAGI. Mr. Shekhar Sardesai from KL is the Chief Managing Director, while Mr. Sanjay Asher, Mr. Pottipati Adithya and Mr. Richard Barnhart are the other directors. The management team collectively possesses more than 3 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.

KAGI is a subsidiary of 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 US and allied militaries. The principal customers include the US military, Sikorsky Aircraft Corporation, The Boeing Company, Airbus, Lockheed Martin, Raytheon and Bell Helicopter. KC has its operations spread across 50 countries all over the world.

KL was initially incorporated in 1994 as 'Mass Kinematics Private Limited' and later renamed as 'Kineco Private Limited' in 2001. In 2016, INL acquired around 51 per cent 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 the company was renamed as 'Kineco Limited'. KL is engaged in manufacturing of advanced composite parts for industries including aerospace & defence, 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 defence sector. Further, KAGI had extended corporate guarantee against the ECB facility sanctioned to KKCI, which has now been fully repaid. It has also received funding support from both the parent companies in the form of unsecured loan and equity infusion during the past for meeting working capital requirement and purchase of capital assets.

Acuité believes that KKCI is expected to benefit on account of experienced management and being a part of a strong parent company.

Strong financial risk profile with stable operating performance

The financial risk profile of KKCI stood strong, reflected in comfortable capital structure and healthy debt coverage indicators. The capital structure of KKCI stood comfortable with an overall gearing of 0.51 times as on March 31, 2021 as against 0.61 times as on March 31, 2020, given KKCI relying on own funds to fund the capital expenditures and the working capital requirements. This is also reflected in TOL/TNW which stood comfortable at 0.84 times as on March 31, 2021 as against 1.29 times as on March 31, 2020. Given this, coupled with low interest costs given the term loans being availed in foreign currency, the debt coverage indicators also stood healthy, reflected in the interest coverage and DSCR of 17.85 times and

1.22 times respectively in FY21 as against 10.78 times and 1.79 times respectively in FY20. Going forward, the gearing is expected to be in the range of 0.50-0.65 times while the interest coverage ratio will remain in the range of 13.90-15.50 times over the medium term. KKCI is planning to undertake some capex worth Rs.12 Cr which will be primarily funded by debt of and rest by internal accruals. This is expected to be completed by FY23.

The strong financial risk profile is on back of stable operating performance. The operating income of KKCI witnessed a marginal decline from Rs.54.40 Cr in FY20 to Rs.48.67 Cr in FY21 owing to the disruptions caused by the COVID-19 pandemic in April 2020, as well as the spread of order executions from BAE Systems over various months till June 2021 in order to ensure almost even revenue flows in each month, rather than concentrated flows in a few months to avoid cash flow mismatches. However, the performance has again seen a recovery, since during 10MFY22, the company posted net sales worth Rs.42.94 Cr as against Rs.41.46 Cr in 10MFY21.

Further, the order book position stood healthy at Rs.58.84 Cr as on January 31, 2022, which is to be executed over FY22-FY23, thereby providing medium-term revenue visibility.

KKCI's operating profitability has largely been unaffected by the decline in revenue and the operating margin stood comfortably above 25 per cent in FY21 despite some deterioration. The operating margin of KKCI stood healthy, however deteriorated from 31.88 per cent in FY20 to 27.19 per cent in FY21 owing to comparatively lower contribution of high margin orders from BAE Systems to the revenues in FY21. Moreover, various other overhead costs also increased proportionately in FY21 owing to some decline in the scale of operations in that year. Given the deterioration in the operating margin, the net margin also deteriorated from 19.87 per cent in FY20 to 11.11 per cent in FY21. However, going forward the operating margin is expected to remain stable in the range of 24 –25 per cent over the medium-term.

Acuité expects KKCI's financial risk profile to remain healthy over the medium-term on the back of stable operating performance despite some debt-funded capex.

Weaknesses

Working capital intensive nature of operations

The operations of KKCI are working capital intensive in nature marked by high inventory holding of 93 days in FY21 as against 101 days in FY20, since the company needs to maintain high inventory due to the technical nature of products. This is reflected in high working capital cycle and gross current assets days of 121 days and 179 days respectively in FY21 as against 112 days and 159 days respectively in FY20. However, since a major portion of the working capital requirements is funded by way of customer advances and internal accruals, the company's reliance on working capital bank facilities remained moderately low, with average working capital utilization of 37.81 per cent in the last 6 months ended January 2022.

KKCI's ability to maintain its liquidity position without any significant stretch in its working capital cycle shall remain a key rating sensitivity.

High customer concentration risk

KKCI continues to be exposed to high customer concentration risk since more than 75 per cent of the operating income in FY20 and FY20 is derived from a single customer viz. BAE Systems, USA. Further, a large portion of the unexecuted order is from BAE Systems. The company also caters to other players including Hindustan Aeronautics Limited, Vikram Sarabhai Space Centre, Kaman Composites - UK Limited, which operate in the defence, aerospace and marine industries. Hence, changes in procurement policy of BAE Systems or credit terms with vendors can have a significant bearing on the performance of the company and the credit rating. KKCI is expanding its customer base to other countries as well, however, revenue from BAE Systems shall continue to remain high, thereby exposing KKCI to high customer concentration risk.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Strong

The liquidity profile of KKCI is strong marked by healthy net cash accruals vis-à-vis moderate debt repayment obligations, moderate current ratio, high unutilized working capital limits and healthy free cash & liquid investments. The operations of the company are working capital intensive in nature with gross current assets days and working capital cycle of 179 days and 121 days respectively in FY21 as against 159 days and 112 days respectively in FY20. However, given the higher reliance on customer advances, the average fund-based working capital utilization in the last 6 months ended January 2022 stood moderately low at 37.81 per cent. Moreover, the company generated moderate net cash accruals worth Rs.12.84 Cr and Rs.7.65 Cr in FY20 and FY21 respectively as against moderate debt repayment obligations worth Rs.6.39 Cr and Rs.6.12 Cr in those respective years. The company is expected to generate net cash accruals in the range of Rs.7.50-8.50 Cr over FY22-FY23, as against moderately low debt repayment obligations worth Rs.1.50-2.50 Cr over the same period. Furthermore, the current ratio stood moderate at 1.90 times as on March 31, 2021 as against 1.39 times as on March 31, 2020. Additionally, the free cash & liquid investments stood healthy at Rs.14.49 Cr as on March 31, 2021 as against Rs.31.63 Cr as on March 31, 2020. The company adopts a strategy to park the customer advances from BAE Systems in free FDs, thus providing further liquidity. The customer advances and free FDs declined from Rs.16.85 Cr and Rs.23.70 Cr respectively as on March 31, 2020 to Rs.1.71 Cr and Rs.11.50 Cr respectively as on March 31, 2021, since a particular order from BAE Systems was nearing completion. However, as on February 12, 2021, the company maintains Rs.16-17 Cr in free FDs, whereas the said balance is expected to increase further owing to fresh customer advances to be brought in from the new orders availed from BAE Systems, thereby providing further liquidity.

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 unenvisaged debt-funded capex plan.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	48.67	54.40
PAT	Rs. Cr.	5.41	10.81
PAT Margin	(%)	11.11	19.87
Total Debt/Tangible Net Worth	Times	0.51	0.61
PBDIT/Interest	Times	17.85	10.78

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Nov 2020	Letter of Credit	Short Term	2.25	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	10.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Proposed Bank Facility	Long Term	16.95	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	6.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	3.50	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	1.30	ACUITE AA- (CE) Stable (Reaffirmed)
29 Aug 2019	Bank Guarantee	Short Term	3.50	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	2.25	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	7.88	ACUITE AA- (CE) Stable (Downgraded from ACUITE BBB Stable)
	Secured Overdraft	Long Term	8.53	ACUITE AA (SO) (Withdrawn)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	10.37	ACUITE BBB Stable (Reaffirmed)
11 Jun 2018	Cash Credit	Long Term	6.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	9.72	ACUITE AA (SO) Stable (Assigned)
	Secured Overdraft	Long Term	8.53	ACUITE AA (SO) Stable (Assigned)
	Letter of Credit	Short Term	2.25	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	3.50	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A2 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB+ Stable Reaffirmed
Bank of America	Not Applicable	External Commercial Borrowing	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE AA- CE Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A2 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	15.25	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	20-11-2018	10.50	26-02-2026	10.00	ACUITE BBB+ Stable Reaffirmed

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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 8,850 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 Kanjurmarg, Mumbai.

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