



Press Release
Kineco Kaman Composites India Private Limited
August 21, 2024
Rating Reaffirmed

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

Rating Rationale

Acuité has reaffirmed its long-term rating to '**ACUITE BBB**' (read as **ACUITE Triple B**) and short-term rating to '**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**'.

Rationale for Rating

The rating has been reaffirmed since the company has a stable revenue profile albeit a marginal decline in margin. The Company has an unexecuted order book of about Rs. 113.62 Cr. as of June 2024 to be executed over medium term providing it revenue visibility. Despite the slight decline in margins, it had remained healthy at ~18 % due to niche product profile that the Company deals in; the decline had been due to marketing costs incurred by the company to expand its customer and geographic reach. The financial risk profile of the Company also continues to remain moderate due to the healthy capital structure and comfortable debt protection metrices. Healthy cash and bank balance along with the expected improvement in GCA cycles and debt protection is expected to improve the liquidity position of the company.

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. Mr. Shekhar Sardesai from KL is the Chief Managing Director, while Mr. Sanjay Asher and Mr. Timothy James Tifft are the other directors.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and long track record of operations

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 Sardessai from KL is the Chief Managing Director, while Mr. Sanjay Asher and Mr. Timothy James Tifft 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. The extensive experience of the promoters has helped the company to maintain a healthy order book position. The company has an order book of ~Rs.113 crore as on 31st June 2024. The company has reputed clientele base like BAE Systems Ltd, Vikram Sarabhai Space Centre, among others. Acuité believes that KKCI is expected to benefit on account of experienced management in procuring the orders from the customers in new geographies.

Moderate financial risk profile

The company has a moderate financial risk profile marked by tangible net worth of Rs.47.49 crore as on 31 March 2024 as against Rs.42.63 crore as on 31 March 2023.

The gearing level of the company stood at 0.40 times as on 31 March 2024 as against 0.35 times as on 31 March 2023. The total debt of the company stood at Rs.19.07 crore as on 31 March 2024.

The company has expansion plans and has already placed orders for equipment from Europe along with the purchase of a building. The funding mix for the same is Rs. 22.5 crore from the bank (not yet tied up) and Rs.7.5 crore from internal accruals. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 7.60 times for FY24 against 15.34 times for FY23. The Debt Service Coverage Ratio (DSCR) stood at 2.99 times for FY24 against 3.48 times for FY23. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.53 times for FY24 as against 0.68 times in FY23. Acuite believes that the financial risk profile of the Company is expected to remain at similar moderate levels over the medium term.

Weaknesses

Working Capital Management: Intensive

The company's operations are working capital intensive as evident from Gross Current Asset (GCA) of 520 days as on March 31, 2024 as against 297 days as on March 31, 2023. This was due to high amount of unsold inventory since there were delay in orders. The company has high inventory days owing to import of raw materials which take 5 to 6 months to arrive and also since new customers have been added last year, a further increase can be seen since products are customised as per customer requirements and advances for raw materials are required.

The inventory levels have increased and stood at 169 days for FY24 compared against 102 days for FY23. Average inventory holding period for the raw materials is around 90-120 days. The debtor days stood at 106 days for FY24 against 68 days for FY23. The average credit period allowed to the customers is around 40-50 days. The creditor days of the company stood at 179 days for FY24 as against 153 days for FY23. The average credit period received from the customers is around 30-60 days.

High customer concentration risk

KKCI continues to be exposed to high customer concentration risk since more than 60 per cent of the orders derived from a single customer viz. BAE Systems, USA. 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.
- Elongation in working capital cycle
- Weakening of debt protection metrics
- Larger than expected debt funded capex plan

Liquidity Position Adequate

The company has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.8.04 crore in FY24 compared against maturing debt obligations of Rs.3.19 crore over the same period. The cash accruals of the company are estimated to remain in the range of Rs9.87-12.50 crore during the FY2024 and FY2026 period while its maturing debt obligations is estimated to be in the range of Rs.2.28-3.19 crore during the same period. The average utilization of the CC limits of the company is utilized ~69 percent in last six months ended June'24. The Company also has a debt funded capex plan of Rs. 30 Cr which is expected to be a key monitorable. The company maintains unencumbered cash and bank balances of Rs.29.53 crore as on March 31, 2024, a part of which is expected to be applied for working capital needs of the Company. The current ratio stood at 1.20 times as on March 31, 2024.

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 un-foreseen debt-funded capex plan.

Other Factors affecting Rating None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	49.84	51.16
PAT	Rs. Cr.	5.05	6.26
PAT Margin	(%)	10.13	12.24
Total Debt/Tangible Net Worth	Times	0.40	0.35
PBDIT/Interest	Times	7.60	15.34

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

Not Applicable

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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 May 2023	Letter of Credit	Short Term	2.25	ACUITE A2 (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	3.50	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	9.00	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
	Proposed Long Term Loan	Long Term	15.25	ACUITE BBB Stable (Downgraded from ACUITE BBB+ Stable)
23 Feb 2022	Letter of Credit	Short Term	2.25	ACUITE A2 (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	3.50	ACUITE A2 (Reaffirmed)
	External Commercial Borrowing	Long Term	1.30	ACUITE AA- (CE) (Reaffirmed & Withdrawn)
	Cash Credit	Long Term	9.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	15.25	ACUITE BBB+ Stable (Reaffirmed)

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 avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.50	ACUITE A2 Reaffirmed
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.25	ACUITE A2 Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	14.64	ACUITE BBB Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	31 May 2022	Not avl. / Not appl.	31 Aug 2031	Simple	7.89	ACUITE BBB Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	01 Jun 2018	Not avl. / Not appl.	26 Feb 2026	Simple	2.72	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Dibyendu Roy Associate Analyst-Rating Operations Tel: 022-49294065 dibyendu.roy@acuite.in	Varsha Bist Associate Vice President-Rating Administration Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.