

March 25, 2022

Kalyani Rafael Advanced Systems Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working Capital Facilities	25.00	25.00	[ICRA]A- (Stable); reaffirmed
Unallocated Limits	5.00	5.00	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Total	30.00	30.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings factors in the strong operational and financial support derived by Kalyani Rafael Advanced Systems Private Limited (KRAS) from its ultimate holding company, Bharat Forge Limited (BFL, rated [ICRA]AA+(Stable)/[ICRA]A1+). KRAS is a 51:49 joint venture (JV) between the Kalyani Group and the Israel-based Rafael Advanced Defence Systems Limited¹ (Rafael), and the entity is a part of core business of BFL's defence component division.

KRAS is undertaking missile sub-system manufacturing under the defence segment, which is strategically important to the Kalyani Group. Further, the demand prospects across its end-user segments remain favourable, given the Government's thrust on indigenisation of defence production. ICRA is given to understand that the promoter group remains committed to provide timely financial and operational support to KRAS, if required. The ratings favourably note the strong order book position of Rs. 795.0 crore as on December 31, 2021 providing medium-term revenue visibility. The financial risk profile is comfortable with net cash surplus position, interest coverage of 23.8 times for 9M FY2022 and adequate liquidity position with nil utilisation of cash credit limits and cash balances of Rs. 21.9 crore as on December 31, 2021.

The ratings are, however, constrained by its modest scale of operations with revenues of Rs. 80.0 crore and Rs. 37.9 crore in FY2021 and 9M FY2022, respectively. The revenues are estimated to decline to ~Rs. 68-72 crore in FY2022 because of delay in supply commencement of its major order. Further, the operating margins remained thin at around 3%-5% during the last two years owing to limited value addition, as the company is involved in trading and integration, assembly and testing of sub-system segments. The operating margins are expected to remain within 4.5%-5.5% going forward. The profitability is exposed to forex fluctuations as the entire revenues are derived from exports. However, the deemed imports would act as a natural hedge to an extent and revenues to the tune of 30-40% are hedged through forward contracts. KRAS has high customer concentration as it derived 100% of its revenues from a single customer and its JV partner, Rafael, till FY2021. The customer concentration is expected to reduce over the medium term with KRAS bidding for direct orders of various defence public sector undertakings (PSUs). The supplier concentration is high with the company procuring its sub-assemblies only from approved vendors. However, the risk is mitigated, to an extent, on the back of its established relationship with Rafael and suppliers.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that KRAS will benefit from its strong promoters, healthy order book position and adequate liquidity.

¹ Rafael is a state-owned company of Israel and it is one of the leading manufacturers in developing and manufacturing weapon systems globally

Key rating drivers and their description

Credit strengths

Operational and financial benefits from strong promoters – The Kalyani Group has 51% holding in KRAS and the remaining 49% shareholding is held by Rafael. The JV company is formed to fulfil the defence offset obligations under the Indian defence purchase programme. KRAS is undertaking missile sub-system manufacturing under the defence segment, which is strategically important to the Kalyani Group. ICRA is given to understand that the promoter group remains committed to provide timely financial and operational support to KRAS, if required.

Strong order book position – The company's order book remained strong at Rs. 795.0 crore as on December 31, 2021 providing medium-term revenue visibility. The major order of Rs. 746.00 crore is from Rafael for supply of missile articles and weapon systems. Further, the favourable demand prospects across its end-user segments, given the Government's thrust on indigenisation of production, augur well for its long-term growth prospects.

Comfortable financial risk profile and coverage indicators – The financial risk profile is comfortable with zero debt levels, interest coverage of 23.8 times for 9M FY2022 and adequate liquidity position with nil utilisation of cash credit limits and cash balances of Rs. 21.9 crore as on December 31, 2021.

Credit challenges

Modest scale of operations – The company's scale of operations remained modest with revenues of Rs. 80.0 crore and Rs. 37.9 crore in FY2021 and 9M FY2022, respectively. The revenues are estimated to decline to ~Rs. 68-72 crore in FY2022 with delay in supply commencement of its major order. The revenues are generated through both trading and supply of sub-system assemblies. In the trading segment, KRAS is responsible for coordinating the supply of the goods to Rafael from its domestic vendors. For sub-system supply, it procures finished sub-components and offers system integration of the same as per the customer requirements.

High customer and supplier concentration – KRAS has high customer concentration as it is derived 100% of its revenues from a single customer and its JV partner, Rafael, till FY2021. The customer concentration is expected to reduce over the medium term with KRAS bidding for direct orders of various defence PSUs. The supplier concentration is high with the company procuring its sub-assemblies only from approved vendors. However, the risk is mitigated, to an extent, on the back of its established relationship with Rafael and suppliers.

Thin operating margins – The operating margins remained thin at around 3%-5% during the last two years owing to limited value addition, as the company is involved in trading and integration, assembly and testing of sub-system segments. The operating margins are expected to remain within 4.5%-5.5% going forward. The profitability is exposed to forex fluctuations as the entire revenues are derived from exports. However, the deemed imports would act as natural hedge to an extent and revenues to the tune of 30-40% are hedged through forward contracts.

Liquidity position: Adequate

The company's liquidity position is adequate, with unencumbered cash balance of around Rs. 21.9 crore and cushion in working capital limits of Rs. 10.5 crore (based on drawing power) as on December 31, 2021. Absence of debt and any capex plans in the near term will support its liquidity position. KRAS derives high financial flexibility as a part of the Kalyani Group, with BFL being the ultimate holding company.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company witnesses significant revenue growth, improvement in profitability while maintaining the liquidity position.

Negative factors – Pressure on the ratings may arise if the company witnesses significant decline in revenue and profitability, deterioration in the liquidity position or weakening of linkages with the promoter.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent Company: Kalyani Strategic Systems Limited (KSSL) The ratings assigned to KRAS factors in the likelihood of its ultimate parent, BFL, extending financial support to KRAS through Kalyani Strategic Systems Limited (KSSL, major shareholder of KRAS and 100% subsidiary of BFL) because of its strategic importance. KRAS, being in the defence segment, is a strategically important and core business to the BFL's defence division.
Consolidation/Standalone	Standalone

About the company

Incorporated in 2015, KRAS is a JV between the Kalyani Group and Rafael Advanced Defense Systems Ltd., Israel. It is a private sector missile sub-system manufacturing facility. The Kalyani Group holds 51% stake in KRAS and the remaining 49% is held by Rafael Advance Systems Ltd, Israel. In line with the Government's Make in India initiative, the JV was set up as a facility to design, develop and manufacture weapon systems for the Indian Armed Forces. The company's plant is spread across an area of 24,000 sq. ft. in Hardware Tech Park (near Rajiv Gandhi International Airport (RGIA)), Hyderabad.

Key financial indicators

	FY2020	FY2021	9M FY2022
	Audited	Audited	Provisional
Operating Income (Rs. crore)	64.3	79.9	37.9
PAT (Rs. crore)	0.2	0.8	0.7
OPBDIT/OI (%)	2.7%	4.9%	5.6%
PAT/OI (%)	0.4%	1.0%	1.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.0	0.6
Total Debt/OPBDIT (times)	0.4	0.1	0.0
Interest Coverage (times)	7.8	25.5	23.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				March 25, 2022	February 11, 2021	-	-	
1 Working Capital Facilities	Long term	25.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	
2 Unallocated Limits	Long term/ Short term	5.00	-	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Working Capital Facilities	Simple
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Facilities	-	-	-	25.00	[ICRA]A- (Stable)
NA	Unallocated Limits	-	-	-	5.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: KRAS

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 40676527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Abhishek Lahoti
+91 40 4067 6534
abhishek.lahoti@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.