September 05, 2024

Kineco Limited: Ratings reaffirmed to [ICRA]BB+ (Stable)/[ICRA]A4+; outlook on long-term rating revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Others – Non-fund based	28.00	28.00	[ICRA]BB+ reaffirmed, outlook revised to Stable from Negative /[ICRA]A4+; reaffirmed
Long term – Others - Interchangeable	(10.00)	(10.00)	[ICRA]BB+ reaffirmed; outlook revised to Stable from Negative
Long term/Short term - Unallocated	0.20	2.20	[ICRA]BB+ reaffirmed; outlook revised to Stable from Negative /[ICRA]A4+; reaffirmed
Short term – Others - Interchangeable	(26.00)	(28.00)	[ICRA]A4+; reaffirmed
Long term - Cash credit – Fund-based	51.50	29.00	[ICRA]BB+; reaffirmed; outlook revised to Stable from Negative
Long term - Term loan – Fund-based	0.90	15.76	[ICRA]BB+; reaffirmed; outlook revised to Stable from Negative
Total	**80.60**	**74.96**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Stable from Negative factors in an improvement in the capital structure of Kienco Limited (Kineco) after the infusion of Rs. 88 crore as equity by a set of financial investors, the proceeds of which have been used to repay the preference capital and unsecured debt of the erstwhile promoters along with some existing borrowings. This has also improved the company's debt coverage metrics. Kineco was earlier a subsidiary of Indo National Limited (INL). However, in the Q1 of the current fiscal, a set of financial investors bought the entire stake from INL and infused additional growth capital in the company.

The rating reaffirmation continues to take into account Kineco's established track record in the composite industry coupled with the favourable demand prospects. Further, the company has an unexecuted order book position worth around Rs. 100 crore as on date which includes orders from the railways, defence and other industrial sectors, which is to be largely executed in the current fiscal. The order inflow is expected to further increase with the addition of new contracts, providing near-term revenue visibility.

However, the ratings are constrained by the company's modest scale of operations, with standalone revenues of Rs. 125 crore and consolidated revenues of Rs. 175 crore in FY2024. The ratings are also constrained by the order book concentration risk as the top five orders constituted more than 90% of the pending order book as on date, exposing it to business risks. The company has limited pricing flexibility on account of stiff competition and L1 (lowest bid) tender-based orders from clients. Moreover, its profitability also remains exposed to the volatility in raw material prices. The volatile input costs along with other one-offs had led to a lot of fluctuations in the profitability in the past.

Key rating drivers and their description

Credit strengths

Established track record and considerable experience of promoters in composite industry – Kineco has an established track record in the composite industry and benefits from its strategic linkage with global majors, Kaman Corporation, USA, and Exel Composites NV, Finland, through a joint venture.

Comfortable order book position, providing near-term revenue visibility - Kineco had orders in hand worth ~Rs. 100 crore as on date, which included orders from the railways and defence sectors, providing revenue visibility. The company is also in discussions for a large order from the Indian Railways, which will increase the scale of operations, although the timelines for the award of the contract and its amount remains to be seen.

Improved capital structure post equity infusion - A set of investors infused equity worth Rs. 88 crore in Kineco and bought out the entire stake of the erstwhile parent company – INL. This resulted in a strong net worth position and a healthy capital structure. A part of the proceeds from this equity infusion was used to repay unsecured loans and preference capital of the outgoing parent and reduce its own working capital borrowings. The funds will be ultimately used to undertake a capex for the anticipated order from the railways.

Credit challenges

Relatively moderate scale of operations – The company's scale of operations remains moderate, evident from an operating income of Rs. 175.1 crore in FY2024 (consolidated). Though the company is trying to diversify its customer base, the high dependence on a few customers and geographies accentuates the risk of revenue volatility in case of demand variation or any disruption in client business.

Profitability vulnerable to volatility in order flows, raw material prices and delays in project execution – The orders from major customers are obtained through L1 tender-based bidding, which limits the pricing flexibility owing to the aggressive bidding by competitors. Stiff competition in the industry characterised by numerous small players limits the pricing flexibility and exposes the margins to the variation in input costs as these contracts do not have pass-through mechanisms. Any adverse variation in order flows constrains Kineco's profitability on account of the high fixed overheads. Further, any delay in project execution exposes the company to the imposition of liquidated damages.

High customer concentration risk – Kineco's customer concentration risk had remained high with ~80% of the revenues accruing from the railways (mainly integral coach factory). However, there has been increasing diversification of customers in recent years with orders taken from the defence and other industrial sectors. ICRA notes that while the company faced stretched receivable payments from the railway sector, resulting in high working capital intensity, the counterparty risk was low as its clientele included central public-sector units (PSUs) in the railway and defence sectors as well as reputed private sector clients.

Liquidity position: Adequate

The liquidity is expected to remain adequate with moderate working capital limit utilisation of ~50% in the last six months ended July 2024. The liquidity will be further supported by an equity infusion of Rs. 88 crore and reduced debt repayment obligations.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company reports a consistent growth in turnover with healthy profitability generation while maintaining its liquidity profile.

Negative factors – Pressure on the ratings could arise in case of a substantial decline in scale or a material reduction in profit generation. Further, any large debt-funded capex or a considerable stretch in the working capital cycle which weakens the liquidity profile may also result in a downward revision of the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Kineco with its subsidiary, the details of which is enlisted in Annexure II

About the company

Kineco Limited (Kineco) was incorporated in 1994 as Mass Kinematics Private Limited and commenced operations by manufacturing fibre-reinforced plastics (FRP) chemical process equipment. The company was renamed Kineco Private Limited in 2001 and has since diversified into the manufacturing of custom-moulded products and advanced composites and caters to industries such as aerospace & defence, railways, automotive and process equipment. The company was reconstituted as a public limited company in 2016, with INL picking up stake in the company through its wholly-owned subsidiary - Helios Strategic Investments (India) Limited (HSIL) - which had spent Rs. 39 crore for a 51% stake in Kineco as of September 2016. Thereafter, in July 2024, INL exited the business completely and a set of financial investors bought stake from INL and also infused around Rs. 88 crore in the company.

Kineco Kaman Composites India (KKCI) is a joint venture between Kaman Aerospace Group (USA) and Kineco Limited (India), with Kineco holding a 51% stake. KKCI was set up with its headquarters and manufacturing facility based in Goa to address the growing needs of the global aerospace and defence companies. Moreover, Kineco hived off its pultrusion division in October 2021 and formed a new joint venture (JV) with Finland-based Exel Composites.

Key financial indicators

Kineco Limited (Consolidated)	FY2023	FY2024
Operating income	167.3	175.1
PAT	-8.1	7.6
OPBDIT/OI	4.4%	15.3%
PAT/OI	-4.9%	4.3%
Total outside liabilities/Tangible net worth (times)	4.2	4.1
Total debt/OPBDIT (times)	18.6	4.5
Interest coverage (times)	0.7	2.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Sep 05, 2024	Jul 25, 2023	Sep 22, 2022	Oct 07, 2021
1	Long term/Short term – Others – Non-fund based	Long Term/Short Term	28.00	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3
2	Long term – Others - Interchangeable	Long Term	(10.00)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Long term/Short term - Unallocated	Long Term/Short Term	2.20	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BBB- (Stable)/ [ICRA]A3	-
4	Short term – Others - Interchangeable	Short Term	(28.00)	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3
5	Long term - Cash credit – Fund-based	Long Term	29.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
6	Long term - Term loan - Fund based	Long Term	15.76	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Working capital term loan	Simple
Long-term/short-term, non-fund based, bank guarantee	Very Simple
Unallocated	Not Applicable
Long-term, interchangeable limits	Simple
Short-term, interchangeable limits	Very Simple

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	29.00	[ICRA]BB+ (Stable)
NA	Term loan/WCTL	FY2017	-	FY2029	15.76	[ICRA]BB+ (Stable)
NA	Long-term/short-term, non-fund based - Bank guarantee	-	-	-	28.00	[ICRA]BB+ (Stable) /[ICRA]A4+
NA	Long-term interchangeable limits	-	-	-	(10.00)	[ICRA]BB+ (Stable)
NA	Short-term interchangeable limits	-	-	-	(28.00)	[ICRA]A4+
NA	Unallocated	-	-	-	2.20	[ICRA]BB+ (Stable) /[ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis –

Company Name	Kineco Ownership	Consolidation Approach
Kineco Limited	100% (rated entity)	Full consolidation
Kineco Kaman Composites India Private Limited	51.00%	Full Consolidation

ANALYST CONTACTS

Girishkumar Kashiram Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 12 4454 5332
prashant.vasisht@icraindia.com

Ankit Jain
+91 12 4454 5865
ankit.jain@icraindia.com

Harshita Singh
+91 12 4454 5306
harshita.singh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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.

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches