September 13, 2024

Dynamatic Manufacturing Limited: [ICRA]A- (Stable)/ [ICRA]A2+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term- Fund based – working capital	20.0	[ICRA]A- (Stable); assigned
Short term- non-fund based – working capital	10.0	[ICRA]A2+; assigned
Long term- Term loans	5.0	[ICRA]A- (Stable); assigned
Total	**35.0**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings consider the strong operational and financial support enjoyed by Dynamatic Manufacturing Limited (DML) from its parent, Dynamatic Technologies Limited (DTL), which has extensive experience and established presence in segments such as aerospace, hydraulics segment and metallurgy. DML benefits from the close business linkages between DTL and DML as it derives the major portion of its revenues from DTL. Moreover, DML is strategically important to DTL as it acts as a backward integration unit for DTL's aerospace business. Further, strong order book position of DTL in the aerospace segment lends revenue visibility to DML in the medium term as DTL's aerospace operations are partly integrated, with DML producing sheet metal and other detailed parts of aerostructures. ICRA also expects DTL to provide need-based support to DML.

ICRA's ratings are constrained by DML's nascent stage of operations as it is a relatively newer player with FY2024 being the first year of operations. Going forward, timely stabilisation and ramp-up of operation remain critical. The ratings also consider moderate working capital intensity due to high inventory stocking requirements. Intense competition in the aerospace industry limits pricing flexibility, however, DML's practice of marking up its quoted prices helps in mitigating the profitability of the company. Any delay in execution of orders or weaker order book position of the aerospace segment will put pressure on the performance of DML as well.

The Stable outlook reflects ICRA's opinion that DML will witness a steady scale-up of operations on the back of DTL's healthy order book position in the aerospace segment, leading to improvement in its overall credit profile.

Key rating drivers and their description

Credit strengths

Strong parentage; operational and financial support from DTL – The company derives strong support from its parent, DTL, which has extensive experience and established presence in segments such as aerospace, hydraulics segment and metallurgy. DML benefits from the close business linkages between DTL and DML as it currently derives the major part of its revenues from DTL. Moreover, DML is strategically important to DTL as it acts as a backward integration for DTL's aerospace business. ICRA also expects DTL to provide need-based support to DML.

Healthy order book position of DTL in the aerospace segment lends revenue visibility to DML – DTL's aerospace segment has increased by a healthy CAGR of 8% over the last four years with total revenue contribution of Rs. 510 crore in FY2024. This is largely attributable to long-term supply arrangements (largely perpetual in nature) with reputed clientele such as Airbus, Boeing, Dassault Aviation, Deutsch Aircraft and Bell Helicopters. ICRA notes that DTL currently has a healthy order book position in the aerospace segment. Further, ICRA notes the company's endeavour to develop new products in the aerospace segment to increase presence in the segment has also helped improve its order book over the last few years. Going forward, this factor will also support DML in ramping up its operations. However, timely execution of the order book in the aerospace segment is expected to result in breakeven of operations in the near term and a steady credit profile of DML over the medium term.

Credit challenges

Nascent stage of operations – ICRA notes the early stage of operations of DML, which commenced operations towards the end of Q1 FY2024. Being the first year of operations, DML reported revenues of Rs. 37.5 crore in FY2024 with an operating loss of ~Rs. 12 crore. While the company is expected to report a healthy YoY growth in revenues in the medium term on the back of healthy order book position in the aerospace segment, the profitability indicators are expected to remain muted till the company achieves economies of scale.

Moderate working capital intensity – The company's operations are working capital intensive in nature due to high inventory holding period, with the company reporting moderate net working capital vis-à-vis the operating income of 31%. ICRA expects the working capital intensity to remain marginally above the current level over the medium term. Timely execution of orders and liquidation of inventory will remain a key rating monitorable.

Exposed to intense competition in the aerospace segment – Intense competition in the aerospace industry limits pricing flexibility, however, DML's practice of marking up its quoted prices helps in mitigating the profitability of the company.

Liquidity position: Adequate

DML's liquidity position is adequate, with cash and liquid investments of ~Rs. 0.23 crore. ICRA also understands that DML has availed a working capital facility of Rs. 20 crore and has recently started utilising the same. With improvement in scale of operations and efficiency, the net cash accruals are expected to improve gradually. ICRA notes that the capex of ~Rs. 3 crore in the near term is expected to be funded by external debt.

Rating sensitivities

Positive factors – ICRA may upgrade DML's rating if there is an improvement in the credit profile of DTL, supported by material deleveraging and sustained improvement in its earnings and debt metrics. Further, healthy ramp up in DML's operations leading to significant improvement in its cash accruals, debt metrics and liquidity position could also be positive.

Negative factors – Pressure on DML's ratings could arise in case of a material sustained deterioration in the credit profile of DTL or if there is a considerable delay in scaling up of operations of DML and/or lack of timely and adequate financial support from DTL impacting the business/financial risk profile of the entity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Implicit support from its parent, Dynamatic Technologies Limited
Consolidation/Standalone	Standalone

About the company

Dynamatic Manufacturing Limited (formerly known as JKM Ferrotech Limited), is a subsidiary of DTL. DTL, along with its subsidiary, JKM Erla Automotive Limited, holds a 100% share of DML. It commenced its operations in FY2024. It is involved in engineering, manufacturing, and delivering components for different aerostructures. It is primarily involved in sheet metal operations, heat treatment, surface treatment, metal forming, metal coating, among others. Its manufacturing facility is located in Bangalore, Karnataka.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	0.4	37.5
PAT	-8.8	-14.2
OPBDIT/OI	-1679.1%	-30.9%
PAT/OI	-2034.9%	-37.8%
Total outside liabilities/Tangible net worth (times)	-58.9%	-201.6%
Total debt/OPBDIT (times)	-1.8	-0.5
Interest coverage (times)	3.3	1.1

*Source: Company, ICRA Research; * Provisional numbers; 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					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	September 13, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based – working capital	Long Term	20.0	[ICRA]A- (Stable)	-	-	-	-	-	-
Non-Fund based – working capital	Short term	10.0	[ICRA]A2+						
Term loans	Long Term	5.0	[ICRA]A- (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term- Fund based – working capital	Simple
Short term- non-fund based – working capital	Very Simple

Long term- Term loans	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	Fund based – working capital	NA	NA	NA	20.0	[ICRA]A- (Stable)
NA	Non-Fund based – working capital	NA	NA	NA	10.0	[ICRA]A2+
NA	Term loans	FY2025	NA	FY2030	5.0	[ICRA]A- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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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.

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