ICRA

July 10, 2017

Kaynes Technology India Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long Term- Term Loan	7.95 (reduced from 9.73)	[ICRA]BB+ (Stable) reaffirmed
Long Term- Fund Based Facilities	40.0 (increased from 20.0)	[ICRA]BB+ (Stable) reaffirmed
Long Term- Interchangeable Facilities	(28.0) (increased from 20.0)	[ICRA]BB+ (Stable) reaffirmed
Short Term- Fund Based Facilities	38.05 (reduced from 48.0)	[ICRA]A4+ reaffirmed
Short Term- Interchangeable Facilities	(28.0) (reduced from 34.0)	[ICRA]A4+ reaffirmed
Total	86.0	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BB+ (pronounced ICRA double B plus) [1] assigned to the Rs.7.95-crore[2] term loan facilities, the Rs.40.0-crore long-term fund-based facilities and the Rs. 28.0-crore long-term interchangeable facilities of Kaynes Technology India Private Limited (KTIPL). ICRA has also reaffirmed the short-term rating at [ICRA]A4+ (pronounced ICRA A four plus) assigned to the Rs.38.05-crore short-term fund-based facilities and the Rs.28.0-crore short-term interchangeable facilities of KTIPL. The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of ratings considers the company's established presence and experience of the promoters in the domestic electronic manufacturing services (EMS) industry, which spans over two decades; the reputed clientele and strong relationship that the company has built with the customers and suppliers over the years. The ratings also factor in the company's presence in diversified sectors like in the railway signaling, automotive, medical electronics, defense & aerospace and IT peripherals segments, industrial electronics among others, with recent product-development initiatives. The ratings also consider the healthy growth in revenues during Q1FY2018, coupled with outstanding order book of Rs. 287 crore as on May 30, 2017, which provides revenue visibility for the near term. The ratings, however, continue to remain constrained by the high concentration towards the low value-additive nature of printed circuit board (PCB) assembling business; coupled with intense competition in the industry, which keeps the margins under check. Further, high working capital intensive nature of business owing to high debtors and inventory holding requirements, result in significant working capital borrowings. The ratings continue to factor in the company's exposure of margins to fluctuation in exchange rates since some raw materials are imported in US dollar denominations, while the exports are majorly Euro/ Pound Sterling denominated; however the company has certain hedging mechanism in place. The debt-funded capital expenditure plans of the company, in the near term are expected to impact the debt levels and free cash flows, going forward. The company's ability to improve the scale of operations and margins coupled with efficient working capital management would be the key rating sensitivities.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

- Established presence and experience of the promoters in the domestic electronic-manufacturing services (EMS) industry, which spans over two decades
- Reputed clientele and strong relationship that the company has built with the customers and suppliers over the years
- Presence in diversified sectors like in the railway signaling, automotive, medical electronics, defense & aerospace and IT peripherals segments, industrial electronics among others, with recent product-development initiatives
- Healthy growth in revenues during Q1FY2018, coupled with Rs. 287 crore of outstanding order book as on May 30, 2017, provides revenue visibility in the near term

Credit weaknesses

- High concentration towards the low value-additive nature of PCB assembling business, coupled with intense competition in the industry, which keeps margins under check
- High working capital intensive nature of business owing to high debtors and inventory holding requirements, resulting in significant working-capital borrowings
- Margins remain exposed to fluctuations in exchange rates since some raw materials are imported in US dollar denominations, while the exports are majorly Euro/ Pound Sterling denominated; however the company has certain hedging mechanism in place
- Debt-funded capital expenditure plans in the near term are expected to impact the debt levels and free cash flows going forward

Description of key rating drivers:

KTIPL is a moderate-sized player in the Indian EMS industry with an operating income of Rs.277.5 crore during FY2017. KTIPL is primarily involved in turnkey manufacturing of circuits, boards and components used in various domains including IT peripherals, industrial controls, rail signalling, automotive, medical electronics, defence, aerospace, energy, healthcare etc, also the company has recently developed single board computer (SBC) which is likely to support margins expansion going forward. The company is also undertaking various initiatives for designing of PCBs in addition to their current operations. Growth in revenues by 30% during Q1FY2018, coupled with Rs. 287-crore outstanding order book as on May 30, 2017, provides revenue visibility for the near term. KTIPL's primary raw materials include integrated circuits(IC), PCB, diodes, capacitors, rectifiers, transistors and other base electronic components. A major portion of these raw materials are imported, which exposes the company's margins to fluctuations in exchange rates. High working-capital intensive nature of business on account of high debtors and inventory-holding requirements resulted in significant working capital borrowings during FY2017. However, the expected incentives under the Modified Special Incentive Package Scheme (M-SIPS) for the new unit are likely to support the liquidity position in the near to medium term. Going forward, the company's ability to efficiently manage its working capital requirements would be the key credit-rating factors.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

Corporate Credit Rating Methodology

ICRA

About the company:
Kaynes Technology India Private Limited (KTIPL) is a moderate-sized player in the Indian Electronics Manufacturing Services (EMS) industry. It is primarily involved in turnkey manufacturing of circuit boards mainly for IT peripherals segments, industrial controls, automotive, medical electronics, defence & aerospace and rail signalling, among others. In 2015, the company started its own product-manufacturing unit. Some of its major customers include Siemens, Indo Japan Lighting, Ansaldo STS Transportation Systems India Private Limited, Larsen & Tubro Limited, TVS Electronics Limited, Bharat Electronics Limited, and Moehlenhoff GmbH, to name a few.

Established in 1988 as a sole proprietorship firm with a single unit in Mysore, Karnataka, the entity was later converted into a private limited company in 2008. KTIPL has also been frequently expanding its operations with the addition of new units to cater to the increase in volumes on the back of entry into newer segments.

The company reported a net profit of Rs. 7.4 crore on an operating income of Rs. 277.5 crore in FY2017 (provisional financials).

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable**.**

Rating History for last three years:

Table:

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month - year & rating in FY2018	Month - year & Rating		
					FY2017	FY2016	FY2015
1	Term Loan	Long term	7.95	July 2017	April 2016	April 2015	-
				[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Stable)	NA
2	Fund Based Facilities	Long term	40.0	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Stable)	NA
3	Interchangeable Facilities	Long term	(28.0)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Stable)	NA
4	Fund Based Facilities	Short Term	38.05	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+	NA
5	Interchangeable Facilities	Short term	(28.0)	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+	NA

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Name of the instrument	**Date of Issuance / Sanction**	**Coupon rate**	**Maturity**	**Size of the issue (Rs. crore)**	**Current Rating and Outlook**
Long Term- Term Loan	-	-	FY2022	7.95	[ICRA]BB+(Stable)
Long Term- Fund Based Facilities	-	-	-	40.0	[ICRA]BB+(Stable)
Long Term- Interchangeable Facilities	-	-	-	(28.0)	[ICRA]BB+(Stable)
Short Term- Fund Based Facilities	-	-	-	38.05	[ICRA]A4+
Short Term- Interchangeable Facilities	-	-	-	(28.0)	[ICRA]A4+

Source: KTIPL

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