February 11, 2021

Kalyani Rafael Advanced Systems Private Limited: [ICRA]A-(Stable) /[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	25.00	[ICRA]A- (Stable); assigned
Long-term/Short-term: Unallocated Limits	5.00	[ICRA]A- (Stable)/[ICRA]A2+; assigned
Total	**30.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factors in the operational and financial support to Kalyani Rafael Advanced Systems Private Limited (KRAS) from its ultimate holding company, Bharat Forge Limited (BFL, rated [ICRA]AA+(Negative)/[ICRA]A1+). Kalyani Group holds 51% shareholding in KRAS (50% held by Kalyani Strategic Systems Limited (KSSL) and 1% held by Kalyani Techforge Limited) with BFL, the flagship company of Kalyani group holding 51% shareholding in KSSL. The remaining 49% stake in KRAS is held by Rafael Advance Defense Systems Ltd (Rafael), Israel and the JV company is formed to fulfil the defence offset obligations under the Indian defence purchase programme. KRAS is undertaking missile subsystem 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. The ratings favourably factors in the strong order book position of Rs. 786.9 crore as on September 30, 2020 providing medium-term revenue visibility. The major order is of ~Rs. 746.00 crore from Rafael for supply of missile articles and weapon systems. The capital structure is comfortable as the company does not have any debt. The coverage indicators remain healthy with interest coverage of 7.8 times for FY2020 and Total debt/OPBIDTA of 0.4 times as on March 31, 2020. The liquidity position is adequate with nil utilisation of cash credit limits and healthy cash balances of Rs 17.00 crore as on January 31,2021.

The ratings are, however, constrained by its modest scale of operations with revenues of Rs. 64.3 crore and Rs. 26.53 crore in FY2020 and H1FY2021 respectively. The revenues are expected to improve to ~Rs. 90.00 crore in FY2021. Further, the operating margins remained thin around 3% during the last two years owing to limited value addition as the company is involved in trading and assembly of missile subsystems. The margins are expected to improve over the medium term with the commencement of major outstanding order from Rafael and reduced contribution of trading to the overall revenues. KRAS has high customer concentration as it derived its entire revenues from a single customer and its JV partner, Rafael, during last three years. It also faces high supplier concentration with the company procuring its sub-assemblies from a few major suppliers. However, the risks are mitigated, to an extent, on account 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.

Key rating drivers and their description

Credit strengths

Operational and financial benefits from strong promoters – The Kalyani Group has 51% holding in KRAS (50% is held by KSSL and 1% is held by Kalyani Techforge Limited) with the ultimate holding company being Bharat Forge Limited which holds 51% shareholding in KSSL. The remaining 49% shareholding in KRAS is held by Rafael and 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. Given that

KSSL is an investing entity for the defence business of BFL with limited operations, any funding requirement for KRAS would be from BFL. KRAS is expected to be benefit from the financial support to be extended by BFL if required. The other JV partner is Rafael, which is a state-owned company of Israel and is one of the leading manufacturers in developing and manufacturing weapon systems.

Strong order book position – The company's order book remained strong at Rs. 786.9 crore as on September 30, 2020 providing medium-term revenue visibility. The major order is of ~Rs. 746.00 crore 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 capital structure and healthy coverage indicators – The capital structure is comfortable as the company does not have any debt. Although, it has sanctioned cash credit limits, the utilisation of the same remained nil. As on March 31, 2020, the gearing stood at 0.02 times and the debt portion comprised lease liability of Rs. 0.69 crore due to IND AS 116. The coverage indicators remained healthy with interest coverage of 7.8 times for FY2020 and Total debt/OPBIDTA of 0.4 times as on March 31, 2020. Despite a weakening of coverage indicators in H1 FY2021 due to operating losses with revenue loss owing to the pandemic, it is likely to remain comfortable for FY2021 with significant increase in revenues in H2 FY2021.

Credit challenges

Modest scale of operations – The company has commenced its operations in FY2019 and the scale of operations remained modest with revenues of Rs. 64.3 crore and Rs. 26.53 crore in FY2020 and H1FY2021 respectively. The revenues are expected to improve to ~Rs. 90.00 crore in FY2021. The revenues were generated through both trading and supply of subsystem 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, the company 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 deriving 100% of its revenues from a single customer and its JV partner, Rafael, over the last few years. However, 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 assembles only from approved vendors. However, the risk is mitigated, to an extent, on the back of its established relationship with Rafael and suppliers.

Thin margins – The operating margins have remained thin at around 3% during the last two years owing to limited value addition, as the company is involved in trading and sub-system assembly segments. However, the margins are expected to improve to an extent, going forward, with commencement of major outstanding order from Rafael and reduced contribution of trading to its overall revenues. The profitability is exposed to fluctuations in the forex rates as the entire revenues are derived from exports. However, the deemed imports would act as natural hedge to an extent.

Liquidity position: Adequate

The liquidity position is adequate with free cash balance of ~Rs. 17.00 crore and undrawn working capital limits (based on drawing power) of ~Rs. 8.00 crore as on January 31, 2021. Further, the company does not have any repayment obligations and the absence of major capex plans in the medium term will support its liquidity position. KRAS has high financial flexibility by being 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 or profitability margins resulting in weakened liquidity position or if there is any material weakening in the credit profile of BFL. Further, any change in the support philosophy of BFL to KRAS would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of implicit support expected from parent or group on an entity's credit rating
Parent/Group Support	Parent/Group Company: Bharat Forge Limited (BFL). The rating assigned to KRAS factors in the likelihood of its parent, BFL, extending financial support to it because of its strategic importance. KRAS, being in the defence segment, is considered to be a strategically important business arm for the Group.
Consolidation/Standalone	Standalone

About the company

Incorporated in 2015, KRAS is a Joint Venture between Kalyani Group and Rafael Advanced Defense Systems Ltd., Israel. KRAS is a private sector missile sub-system manufacturing facility. The Kalyani Group holds 51% stake in KRAS and 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 (In the close vicinity of Rajiv Gandhi International Airport (RGIA)), Hyderabad.

Key financial indicators

KRAS	FY2019	FY2020
Operating Income (Rs. crore)	102.44	64.29
PAT (Rs. crore)	0.85	0.25
OPBDIT/OI (%)	2.78%	2.67%
PAT/OI (%)	0.83%	0.39%
Total Outside Liabilities/Tangible Net Worth (times)	1.01	0.87
Total Debt/OPBDIT (times)	0.00	0.40
Interest Coverage (times)	57.16	7.77

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 (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 11, 2021	-	-	-
1	Cash Credit	Long-term	25.00	-	**[ICRA]A-(Stable)**	-	-	-
2	Unallocated Limits	Long-term /Short-term	5.00	--	**[ICRA]A-(Stable)/[ICRA]A2+**	-	-	-

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 click here

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	Cash Credit	--	--	--	25.00	[ICRA]A- (Stable)
NA	Unallocated Limits	--	--	--	5.00	[ICRA]A- (Stable)/[ICRA]A2+

Source: *Company*

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

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