June 23, 2023

Kalyani Rafael Advanced Systems Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Working capital facilities	25.0	25.0	[ICRA]A- (Stable); reaffirmed
Long-term: Proposed - Fund based limits	-	15.0	[ICRA]A- (Stable); assigned
Long-term/ Short -term: Unallocated limits	5.0	-	-
Short -term -Non fund based-Loan Equivalent Risk	-	10.0	[ICRA] A2+; assigned
Long-term/ Short -term – Proposed Non-fund based facilities	-	50.0	[ICRA]A- (Stable)/[ICRA]A2+; assigned
Total	**30.0**	**100.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action 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 Limited (Rafael), and the entity is part of BFL's defence component division. KRAS is undertaking missile sub-system manufacturing under the defence segment, which is a strategically important division of 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. 928.5 crore as on January 31, 2023, providing medium-term revenue visibility. The financial risk profile is comfortable, with interest coverage of 13.1 times for FY2023 and adequate liquidity position with nil utilisation of cash credit limits and cash balances of Rs. 32.8 crore as on March 31, 2023.

The ratings are, however, constrained by its modest scale of operations with revenues of Rs. 131.3 crore in FY2023 and expected revenues of more than ~Rs. 150 crore in FY2024. Further, the operating margins remained thin, at around 3-5% during the last three years, owing to limited value addition, as the majority of the revenue is derived from offset orders where the company is acting as a trader. 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 of 30-40% are hedged through forward contracts. KRAS has high customer concentration as it derived 90% of its revenues in FY2023 from a single customer and its JV partner, Rafael. This risk is expected to reduce over the medium term with KRAS bidding for direct orders of various defence public sector undertakings (PSUs).

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 position.

Key rating drivers and their description

Credit strengths

Operational and financial benefits from strong promoters – The Kalyani Group has a 51% holding in KRAS and the remaining 49% is held by Rafael. The JV company has been 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. 928.35 crore as of January 2023, providing medium-term revenue visibility. 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 – The financial risk profile is comfortable with zero debt levels, and interest coverage of 13.1 times for FY2023. Further, the liquidity position is adequate, with nil utilisation of cash credit limits and cash balances of Rs. 32.8 crore as on March 31, 2023.

Credit challenges

Moderate scale of operations – The company's scale of operations remained moderate with revenues of Rs. 131.0 crore in FY2023 and expected revenues of more than ~Rs. 150 crore in FY2024, due to slow order execution. 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 and has limited value addition. For sub-system supply, it procures finished sub-components and offers system integration as per the customer requirements.

High customer and supplier concentration risks – KRAS has high customer concentration risk, as it derives more than 90% of its revenues from a single customer and its JV partner, Rafael. The customer concentration is expected to reduce over the medium term with KRAS bidding for direct orders of various defence PSUs. The supplier concentration risk 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 operating margins – The operating margins remained thin, at around 3-5% during the last three 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 of 30-40% are hedged through forward contracts.

Liquidity position: Adequate

The company's liquidity position is adequate, with unencumbered cash balance of Rs. 32.8 crore and cushion in working capital limits of Rs. 25 crore (based on sanction) as on March 31, 2023. The liquidity position is expected to remain adequate, given no major capex plans as well as no long-term debt repayment obligations. Moreover, KRAS derives strong 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 any significant revenue growth and improvement in profitability margins, while maintaining the liquidity position.

Negative factors – Pressure on the ratings may arise, if the company witnesses any 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 Implicit support from parent or group
Parent/Group support	Parent Company: Kalyani Strategic Systems Limited (KSSL) The ratings assigned to KRAS factor 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, Kalyani Rafael Advanced Systems Pvt. Ltd. (KRAS) is a joint venture (JV) between the Kalyani Group and Rafael Advanced Defense Systems Ltd., Israel. KRAS is a private-sector missile sub-system manufacturing facility. The Kalyani Group holds a 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, Hyderabad.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	75.1	131.3
PAT	0.1	1.3
OPBDIT/OI	4.0%	3.4%
PAT/OI	0.1%	1.0%
Total outside liabilities/Tangible net worth (times)	5.4	4.3
Total debt/OPBDIT (times)	0.9	0.6
Interest coverage (times)	18.1	13.1

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 23, 2023	-	March 25, 2022	February 11,2021
1	Working capital facilities	Long-term	25.0	-	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Proposed - fund based limits	Long-term	15.0	-	[ICRA]A-(Stable)	-	-	-
3	Unallocated limits	Long-term and short-term	-	-	-	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+
4	Loan equivalent risk	Short-term	10.0	-	[ICRA] A2+	-	-	-
5	Proposed non fund based	Long-term and short-term	50.0	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working capital facilities	Simple
Long-term fund-based – Proposed-fund based limits	Simple
Short -term – Non fund based-Loan Equivalent Risk	Very Simple
Long-term/ Short -term – proposed Non fund based	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	**Working capital facilities**	NA	NA	NA	25.0	[ICRA]A- (Stable)
NA	**Proposed-fund based limits**	NA	NA	NA	15.0	[ICRA]A- (Stable)
NA	**Non fund based-Loan Equivalent Risk**	NA	NA	NA	10.0	[ICRA] A2+
NA	**Proposed Non Fund Based**	NA	NA	NA	50.0	[ICRA]A- (Stable)/ [ICRA]A2+

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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