August 01, 2024

International Aerospace Manufacturing Private Limited: [ICRA]A(Stable) / [ICRA]A2+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	150.00	[ICRA]A (Stable); assigned
Long-term/ Short -term – Fund based/ Non-Fund based working capital	100.00	[ICRA]A (Stable)/ [ICRA]A2+; assigned
Total	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings consider International Aerospace Manufacturing Limited's (IAMPL/the company) established track record in the aero-engine components industry, its steady scale-up in operations supported by repeat orders from Rolls-Royce Plc (RR), a strong order book position and comfortable financial profile. ICRA notes that IAMPL has a healthy wallet share for most of the components supplied to RR. The ratings also favourably consider the strong financial flexibility enjoyed by IAMPL from being a 50:50 joint venture between RR (through its wholly-owned subsidiary) and Hindustan Aeronautics Limited (rated [CRA]AAA (Stable)/A1+).

The ratings are, however, constrained by high customer concentration with IAMPL deriving almost its entire revenues from RR. To mitigate this risk, the company has secured orders from other aerospace engine manufacturers. IAMPL is expected to commence supplies to them from FY2026. Given the export-oriented nature of its business and high dependence on imports for its raw material requirements, the company remains exposed to fluctuations in foreign exchange rates. ICRA notes that the company is currently focusing on reducing its import dependence through indigenisation to mitigate the same to a certain extent.

While the company was operating out of its Bengaluru plant till FY2023, it commenced the construction of a new facility at Hosur in FY2024 to improve its scale of operations. As on June 30, 2024, of the total envisaged project cost of ~Rs. 215 crore, Rs. 100 crore had already been incurred. The company plans to fund the balance capex through a mix of term loans and internal accruals. While the incremental debt is expected to moderate the company's debt metrics to a certain extent in FY2025, on the back of expected strong accruals, the debt metrics are expected to improve from FY2026.

The Stable outlook on the long-term rating reflects ICRA's opinion that IAMPL will continue to benefit from its strong shareholders, healthy order book position and also consistently being part of the high-performance supplier group of RR.

Key rating drivers and their description

Credit strengths

Financial flexibility from being a joint venture between RR and HAL – IAMPL is a 50:50 joint venture between RR (through its wholly-owned subsidiary) & Hindustan Aeronautics Limited (HAL). IAMPL is a critical supplier to RR's civil aerospace division.

Steady scale-up in operations supported by repeat orders from RR – IAMPL has an established track record as one of the key suppliers to RR and currently supplies 200+ machined engine compressor parts, which are part of the civil aerospace engines manufactured by RR. ICRA notes that IAMPL has a healthy wallet share for most of the components supplied to RR. The company has witnessed healthy revenue growth over the past few years with steady scale-up in operations, supported by repeat orders from RR.

Strong order book position provides healthy revenue visibility – IAMPL has a healthy order book position of more than ~Rs. 1,150 crore from RR (from both civil and defence segments) providing healthy revenue visibility. IAMPL has also secured orders from other OEMs, supplies for which are expected to commence from FY2026.

Comfortable financial risk profile – The company's financial profile remains comfortable, supported by healthy revenue growth and range-bound margins over the last few years. Further, the company's debt metrics remained comfortable (TD/OPBDITA of 1.6x as on March 31, 2024 and interest coverage of 15.9x for FY2024), supported by healthy accruals and moderate working capital intensity. While the ongoing capex for setting up the company's Hosur plant is expected to result in some moderation in debt metrics in FY2025, the same is expected to improve on the back of stronger accruals from FY2026.

Credit challenges

Majority of revenues from RR; focus on diversifying customer base – IAMPL currently derives almost its entire revenue from its sole customer, Rolls-Royce Plc. That said, IAMPL forms an integral part of RR's supply chain and has an established track record of supplies to RR. ICRA notes that the company is focused on diversifying its customer base and has secured orders from other OEMs and expects to commence supplies to these entities from FY2026. However, IAMPL is likely to remain dependent on RR for majority of its revenues over the near to medium term.

Ongoing capex to moderate debt metrics; timely ramp up of the same remains key – To enhance its existing capacities, the company had commenced construction of a new manufacturing facility in Hosur in FY2024. While the total project cost for the same is estimated to be ~Rs. 215 crore, of which, ~Rs. 100 crore had already been incurred as on June 30, 2024. The balance is expected to be incurred in a phased manner in FY2025 and FY2026, funded through a mix of debt and internal accruals. This is likely to result in deterioration of the company's debt metrics in FY2025, however, the same is expected to improve from FY2026 on the back of strong accruals. The company has already commenced operations with a capacity of 115k hours (against total envisaged capacity of 254k) at the Hosur facility. Going forward, timely ramp-up of operations at the Hosur plant and impact of the same on the revenue and margin of the company remains a key monitorable.

Exposure to foreign exchange fluctuations – The company remains exposed to fluctuations in foreign exchange rates, given that its entire revenues are derived from exports to RR and imports majority of its raw material from nominated suppliers. ICRA notes that the company is focusing on reducing its import dependence by indigenisation efforts.

Liquidity position: Adequate

IAMPL's liquidity is adequate. The company's utilisation of its working capital limits stood at an average of ~43% over the 15-month period ending May 2024. IAMPL had available undrawn fund-based working capital limits of Rs. 24.3 crore as on March 31, 2024. The company has sizeable capex plans for FY2025 and part of the same is expected to be funded through draw down of term loans. ICRA expects the company's cash flow from operations to be adequate to fund the repayment obligations of its proposed term loans.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of significant scale-up in the revenues and improvement in margins of the company, leading to overall improvement in its liquidity position and debt protection metrics.

Negative factors – The ratings could witness a downward revision in case of any adverse impact on the revenue/profitability of the company resulting in deterioration in debt protection metrics, on a sustained basis. Further, any sizeable dividend payout or higher working capital requirement impacting the liquidity position of the company can trigger a downward rating revision. A specific credit metric for a downgrade is if Total Debt/OPBDITA remains above 2.5x, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

International Aerospace Manufacturing Pvt. Ltd (IAMPL) was started in 2010 as a 50/50 joint venture between Rolls-Royce and Hindustan Aeronautics Limited (HAL) for manufacturing high-precision aero engine compressor and gas turbine parts. At present, IAMPL supplies close to 200 different parts for multiple civil aero engine programmes of Rolls-Royce. The company machines forgings received from its suppliers and supplies the machined parts to its customers. The company uses machine tools, CMM, metal spray booths, & NDT lines to complete its manufacturing operations. The company's Bengaluru facility has a capacity of 2,50,000 hours and IAMPL is currently setting up another facility at Hosur with similar capacities.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	184.8	250.8
PAT	14.4	21.3
OPBDIT/OI	13.2%	14.5%
PAT/OI	7.8%	8.5%
Total outside liabilities/Tangible net worth (times)	0.4	1.1
Total debt/OPBDIT (times)	0.0	1.6
Interest coverage (times)	55.2	15.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts 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
				August 1, 2024	-	-	-
1	**Term loans**	Long term	150.00	**[ICRA]A (Stable)**	-	-	-
2	**Working Capital Facilities**	Long term and short term	100.00	**[ICRA]A (Stable)/ [ICRA]A2+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long Term/Short Term –Fund-based/Non-Fund based working capital facilities	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	**Term loans**	Yet to Avail			150.00	[ICRA]A (Stable)
NA	**Working Capital Facilities**	NA	NA	NA	100.00	[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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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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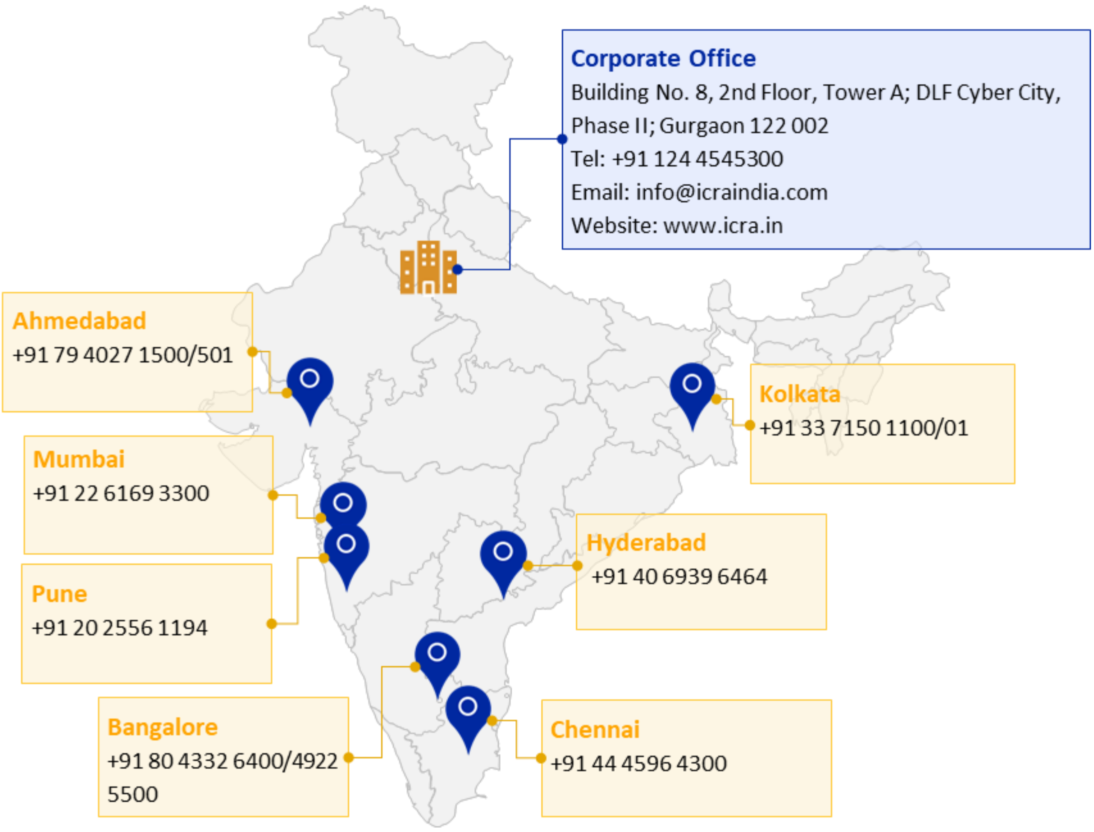

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