

August 19, 2024

Kalyani Rafael Advanced Systems Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based-Cash credit	25.00	40.00	[ICRA]A- (Stable); Reaffirmed
Long-term /Short-term: Non-fund based- Bank guarantee	0.00	40.00	[ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed
Short-term- Non-fund based	10.00	10.00	[ICRA]A2+; Reaffirmed
Short-term- Non-fund based- Letter of credit	0.00	10.00	[ICRA]A2+; Reaffirmed
Long-term-Proposed- Fund-based	15.00	0.00	-
Long-term /Short-term -Proposed – Non-fund based	50.00	0.00	-
Total	100.0	100.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation 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+), which is the flagship entity of the Kalyani Group. 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 a part of BFL's defence division. KRAS is undertaking missile sub-system manufacturing under the defence segment, which is a strategically important to the defence division of the Kalyani Group. Further, the demand prospects for the defence segment 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 consider the healthy order book position of Rs. 820.5 crore as on March 31, 2024 providing medium-term revenue visibility. The financial risk profile is comfortable, with low gearing, healthy interest coverage and adequate liquidity position with nil utilisation of cash credit limits, along with free cash and bank balances of Rs. 68.8 crore as on March 31, 2024.

The ratings are, however, constrained by its thin operating margins at around 2.5-4.0% during the last three years, owing to limited value addition, as the majority of 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 and hedging through forward contracts mitigate the risk to an extent. The operations are working capital intensive, which is funded through extended credit period from vendors as well as customer advances, resulting in a leveraged capital structure with TOL/TNW of 4.9 times as on March 31, 2024. Further, the ratings are constrained by high customer concentration risk as it derived more than 95% of its revenues from a single customer and its JV partner, Rafael. This risk is expected to reduce over the medium term with addition of direct orders from various defence public sector undertakings (PSUs) in the medium term.

The Stable outlook rating reflects ICRA's opinion that KRAS will benefit from the sustained revenue growth, supported by healthy order book position and adequate liquidity position.

Key rating drivers and their description

Credit strengths

Healthy order book position – The company's order book remained healthy at Rs. 820.5 crore as on March 31, 2024 providing medium-term revenue visibility. In addition, it is expected to receive trading orders from Rafael on an ongoing basis supporting

its revenues. Further, the favourable demand prospects across the defence segment, given the Government’s thrust on indigenisation of production, augur well for its long-term growth prospects.

Operational and financial benefits from strong promoters – The Kalyani Group has 51% shareholding in KRAS and the remaining 49% is held by Rafael. The JV company has been formed to fulfil the 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.

Comfortable financial risk profile – The company’s capital structure is comfortable with gearing of 0.1 times and interest coverage of 13.5 times in FY2024 owing to low debt levels. However, the TOL/TNW is high at 4.9 times on account of sizeable customer advances and trade payables. Going forward, the leverage and coverage metrics expected to remain comfortable on account of low debt levels.

Credit challenges

Thin operating margins – The operating margins remained thin at around 2.5-4% 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 low with majority of revenues derived from trading. The profitability is also exposed to forex fluctuations as the entire revenues are derived from exports. However, the deemed imports and hedging through forward contracts mitigate the risk to an extent.

High customer concentration risk – KRAS has high customer concentration risk, as it derives more than 95% 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. However, the risk is mitigated, to an extent, on the back of its established relationship with Rafael.

Liquidity position: Adequate

The company’s liquidity position is adequate, with unencumbered cash balance of Rs. 68.8 crore and cushion in working capital limits. The cash flow from operations is expected to be sufficient for the low capex plans and working capital requirements. 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 significant revenue growth along with 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 or profitability, elongation in working capital cycle weakening its liquidity position. Further, any weakening in linkages with the promoter could also result in rating pressure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	131.3	272.6
PAT	1.3	5.7
OPBDIT/OI	3.4%	2.7%
PAT/OI	1.0%	2.1%
Total outside liabilities/Tangible net worth (times)	2.6	4.9
Total debt/OPBDIT (times)	0.6	0.3
Interest coverage (times)	13.1	13.5

Source: Company, ICRA Research; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			August 19, 2024	June 23, 2023	-	March 25, 2022	
1 Fund-based- Cash credit	Long Term	40.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	
2 Non-fund based- Bank guarantee	Long Term/Short Term	40.00	[ICRA]A- (Stable)/[ICRA]A2+	-	-	-	
3 Non-fund based- Others	Short Term	10.00	[ICRA]A2+	[ICRA]A2+	-	-	
4 Non-fund based- letter of credit	Short Term	10.00	[ICRA]A2+	-	-	-	
5 Proposed-Fund-based	Long Term	0.00	-	[ICRA]A- (Stable)	-	-	
6 Proposed-non fund based	Long Term/Short Term	0.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund-based – Working capital facilities	Simple
Long-term/ Short-term: Non-fund-based – BG	Very Simple
Short-term: Non-fund-based – LC	Very Simple
Short -term -Non fund based-Loan Equivalent Risk	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	40.0	[ICRA]A- (Stable)
NA	Non Fund-based – BG	NA	NA	NA	40.0	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Non Fund-based – LC	NA	NA	NA	10.0	[ICRA] A2+
NA	Non fund based-Loan Equivalent Risk	NA	NA	NA	10.00	[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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