

March 07, 2017

Kineco Limited (Revised)

Instrument	Amount	Rating Action
	In Rs Crore	February 2017
Long-term, Fund-based facilities	20.00	[ICRA]A (SO) (Stable); assigned
Long-term, Interchangeable limits*	(14.06)	[ICRA]A (SO) (Stable); assigned
Short term, Interchangeable limits*	(15.00)	[ICRA]A1 (SO); assigned

* Sub-limits of long-term fund-based; Instrument Details are provided in Annexure I

Rating Action

ICRA has assigned a long-term rating of [ICRA]A (SO) (pronounced ICRA A – Structured obligation) for the Rs. 20.00 crore¹ long-term fund-based limits and the Rs. 14.06 crore interchangeable long-term sub-limits of Kineco Limited (“Kineco”/ “the company”). The outlook on the rating is Stable. ICRA has also assigned a rating of [ICRA]A1 (SO) (pronounced ICRA A one – Structured Obligation)² to the Rs. 15.00 crore interchangeable short-term sub-limits of Kineco. The SO (structured obligation) rated bank limits are credit enhanced by an unconditional and irrevocable corporate guarantee issued by Indo-National Limited (INL). An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA’s opinion on the general credit quality of the issuers concerned.

Rationale

The ratings take into account the unconditional and irrevocable corporate guarantee issued by INL for the bank limits of Kineco. The ratings assume that the guarantee will be duly invoked, as per the terms of the underlying sanction letter and guarantee agreements, in case there is a default in payment by the borrower³.

Key Rating Drivers

Credit Strengths

- Corporate guarantee from INL which holds majority stake in Kineco through its subsidiary Helios Strategic Investments (India) Limited (HSIL)
- Established track record of Kineco in the composites industry; considerable experience of promoters in the industry
- Healthy order book position; increased revenues to result in better absorption of fixed costs leading to improvement in margins
- Favourable demand outlook for FRP composites given its wide range of applications

Credit Weakness

- Modest scale of operations
- Moderate financial risk profile with a leveraged capital structure and weak debt protection metrics
- Corporate guarantees extended on behalf of subsidiaries; uncertainty over nature and scale of funding support

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA’s website www.icra.in / other ICRA Rating publications

³The rated instrument does not involve a structured payment mechanism.

Description of key rating drivers highlighted above:

INL acquired majority stake in Kineco in April 2016, and has extended a corporate guarantee covering the bank facilities sanctioned to the company. INL commenced operations in 1972 and is engaged in the manufacture and marketing of zinc carbon dry cell batteries, marketed under its own brand “Nippo”. INL has an operational track record of over four decades and is the second-largest player in the dry cell batteries industry in India, with a market share of ~32%. INL enjoys strong brand recall with a pan India presence through its established distribution network. As such, INL enjoys healthy accruals and has a favourable financial risk profile with low gearing and comfortable debt protection metrics.

Kineco’s standalone credit risk profile is supported by its established track record in the composites industry, also benefitting from strategic linkage with global majors – Kaman Corporation, USA and ALTE Transportation S.L., Spain, through joint ventures. Kineco has a healthy pending order book that provides revenue visibility over the near term. Furthermore, increased scale of operations is likely to result in better absorption of fixed costs and lead to improved margins.

However, Kineco’s credit risk profile is constrained by its scale of operations, which, notwithstanding healthy growth in recent fiscals, continues to remain modest. Kineco’s revenues had witnessed sharp de-growth between FY 2014 and FY 2015, which amidst high fixed overheads – majorly employee expense and interest burden – resulted in losses and led to significant net worth erosion. Although, the equity infusion from INL’s acquisition has resulted in a healthy moderation in the company’s gearing, its interest coverage and other debt protection metrics continue to remain weak. Kineco’s debt profile as on September 2016 majorly comprised working capital borrowings, unsecured loans from related parties and term loans under repayment. Kineco’s high concentration of revenues to Integral Coach Factory and other government entities has resulted in stretched receivables position, leading to weak liquidity position with high reliance on working capital borrowings. Kineco has also extended corporate guarantees covering the bank facilities of its subsidiary – Kineco Kaman Composites India Private Limited (KKCI). Given that KKCI’s financial profile remains weak, Kineco is likely to extend support, although the nature and scale of the same remains to be seen.

Analytical approach:**Links to applicable criteria**

Corporate Credit Rating – A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

Approach for rating debt instruments backed by third-party explicit support

<http://www.icra.in/Files/Articles/Rating%20of%20debt%20Dec%202016.pdf>

About the Company

Kineco Limited was incorporated in 1994 as Mass Kinematics Private Limited and commenced operations by manufacturing Fibre Reinforced Plastics (FRP) chemical process equipment. The company was renamed to Kineco Private Limited in 2001, and has since diversified into the manufacture of custom moulded products and advanced composites and caters to industries such as aerospace & defence, railways, automotive, and process equipments. The company was reconstituted as a public limited company in 2016, with INL picking up stake in the company through its wholly-owned subsidiary - Helios Strategic Investments (India) Limited (HSIL). The company caters to a reputed clientele comprising industry majors including Bharat Heavy Electricals Limited, Integral Coach Factory, Bhabha Atomic Research Centre, and Armament Research and Development Establishment, Pune, amongst others.



For FY 2015–16 Kineco reported a PAT of Rs. 0.13 crore on an operating income of Rs. 25.53 crore as against net losses of Rs. 9.65 crore on an operating income of Rs. 5.94 crore in FY 2014–15.

Subsidiary Profile

Kineco Kaman Composites India Private Limited was incorporated in 2012 as a 76:24 joint venture with Kaman Aerospace Group Inc. (a subsidiary of USA based aerospace major – Kaman Corporation). KKCI is engaged in manufacturing advanced composites for aerospace, defence, medical imaging and other industries. Its products include composite structural parts for aircrafts and helicopters.

Kineco Alte Train Technologies Private Limited was incorporated in 2010 as a joint venture with ALTE Transportation S.L. – a Spain based global major in the design, manufacture and installation of modular interiors, HVAC and other modules in railway coaches. The company is currently not in operation.

Guarantor Profile

Indo National Limited was incorporated by Mr. P. Obul Reddy in 1972 as Nippo Batteries Company Ltd - a joint venture with Matsushita Electric Industrial Co., Ltd. (currently known as Panasonic Corporation) and commenced production of heavy duty zinc carbon dry cell batteries, marketed under its own brand “Nippo”. INL is the second-largest player in the dry cell batteries industry in India, with a market share of ~32%. INL enjoys strong brand recall with a pan India presence through its established distribution network comprising 33 depots, ~4500 stockists and over 1.5 million retailers and wholesale outlets. Over the years, the company has diversified its product portfolio and currently includes home UPS and inverters, LED and CFL lamps and bulbs, torches and emergency lights. INL also set up a 5 MW solar power plant in Polepally village, Telangana, and evacuates power under a PPA to Deccan Hospitals (unit of Apollo Hospitals Enterprise Ltd.) INL acquired 51% stake in Kineco in April 2016, through its wholly-owned subsidiary HSIL, for a consideration of ~Rs. 40 crore.

For FY 2015–16, INL reported a PAT of Rs. 16.94 crore on an operating income of Rs. 327.55 crore as against a PAT of Rs. 28.92 crore on an operating income of Rs. 320.80 crore in FY 2014–15. INL provisionally reported a PAT of Rs. 16.32 crore on an operating income of 263.10 crore for the nine month period ended December 2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month - year & Rating in FY 2016	Month-year & Rating in FY 2015	Month- year & Rating in FY2014
				March 2017	-	-	-
1	Working capital limits	Long Term	20.00	[ICRA]A (SO) (Stable)	-	-	-
2	Working capital term loan	Long Term	(2.56)	[ICRA]A (SO) (Stable)	-	-	-
3	Cash Credit	Long Term	(11.50)	[ICRA]A (SO) (Stable)	-	-	-
4	Bank Guarantee	Short Term	(8.00)	[ICRA]A1 (SO)	-	-	-
5	Letter of Credit	Short Term	(7.00)	[ICRA]A1 (SO)	-	-	-

Note: All facilities are sub-limits of long-term working capital limits

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Working capital limits	-	-	-	20.00	[ICRA]A (SO) (Stable)
Working capital term loan	-	-	-	(2.56)	[ICRA]A (SO) (Stable)
Cash Credit	-	-	-	(11.50)	[ICRA]A (SO) (Stable)
Bank Guarantee	-	-	-	(8.00)	[ICRA]A1 (SO)
Letter of Credit	-	-	-	(7.00)	[ICRA]A1 (SO)

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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.

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