

## Rating Rationale

March 15, 2023 | Mumbai

# Kinetic Engineering Limited

'CRISIL BB+/Stable' assigned to Bank Debt

### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.25 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BB+/Stable (Assigned)</b>

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

### Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BB+/Stable**' rating to the bank facilities of Kinetic Engineering Limited (KEL).

The rating reflects KEL's extensive experience of promoters and established customer base and average debt protection metrics. These strengths are partially offset by its susceptibility to volatility in raw material prices, working capital intensive operations and moderate capital structure.

### Analytical Approach

Unsecured loans from promoters of Rs 22.43 crores considered as 75% equity and 25% debt as they are expected to remain in the business over the medium term.

Preference shares of Rs 19.63 crores by group company have been treated as neither debt nor equity as it is expected to remain in business over the medium term.

### Key Rating Drivers & Detailed Description

#### Strengths:

- **Extensive industry experience of the promoters and established customer base:** The promoters of KEL has an experience of more than 50 years in the auto components industry and is currently managed by the third generation, i.e., Mr Ajinkya Arun Firodia. This has enabled them to establish strong understanding of the market dynamics and develop healthy relationship with customers. KEL has long standing relationships with reputed customer base including American Axle, Renault India Pvt Ltd, and Mahindra& Mahindra Ltd. Over the years, the company has also expanded its product portfolio into export markets as well as domestic market (with exports contributing 40-45% of the total revenues). As a result, revenues have been steadily increasing, estimated to reach Rs 135-140 crores in fiscal 2023 as compared to Rs 116 crores in Fiscal 2020.
- **Average debt protection measures:** KEL's debt protection measures have been healthy with interest coverage and net cash accruals to adjusted debt of 2.12 times and 0.14 times for Fiscal 2022 and expected to remain 2.3-2.8 times over the medium term. Financial risk profile is expected to remain average over the medium term

#### Weaknesses:

- **Susceptibility to volatility in raw material costs and other overheads:** Because of volatility in the price of major raw material- steel and aluminum, the operating margin remain susceptible to these volatilities. The ability of players to pass on input cost increases or retain any benefit of lower input costs is constrained due to intense competition. The company is able to pass on the same but with a lag of 3-4 months which affects the profitability of the company. In addition, company has high overheads in the form of employee costs which affects the profitability of the company which reflects in PAT losses till Fiscal 2020. Going forward, company's ability to pass on any fluctuation in raw material price movement and sustaining the margins will remain a key monitorable.
- **Working capital intensive operations:** Working capital cycle is large with Gross Current Asset (GCA) of 213 days as on March 31, 2022. The company provides a credit period of 90-100 days (Gross level) to its customers due to business requirements and maintains an inventory of 120-130 days due to diversified product portfolio. Operations are expected to remain working capital intensive over the medium term and hence remains key monitorable.

- **Moderate Capital Structure:** KEL has moderate capitals structure backed by modest estimated net worth of Rs 22.59 crores as on march 31, 2023 (Rs 10.19 crores as on march 31, 2022) and high dependence on external borrowings for its working capital requirements. Gearing and TOLANW stood at 5.32 times and 11.76 times as on March 31, 2022, and is expected to improve to 2.23 times and 5.02 times as on March 31, 2023 due to infusion of equity of Rs 10.5 crores and conversion of unsecured loans of about Rs 2.4 crores into equity. Capital structure is expected to remain in similar range over the medium term.

#### **Liquidity: Adequate**

Bank limit utilisation is high at around 87 percent for the past twelve months ended Jan-2023.

Cash accruals are expected to remain Rs 8-10 crores against repayment obligations of Rs 3.3 crores in Fiscal 2024 and 2025 respectively. In addition, it will be act as cushion to the liquidity of the company.

Current ratio is low at 0.86 times on March31, 2022. The promoters are likely to extend support in the form of equity and unsecured loans to meet any adverse conditions in the business.

#### **Outlook: Stable**

CRISIL Ratings believe KEL will continue to benefit from the extensive experience of its promoter, and established relationships with clients.

#### **Rating Sensitivity factors**

##### **Upward factors:**

- Significant improvement in revenues or sustenance of operating margins above 9% resulting in higher cash accruals
- Improvement in financial risk profile

##### **Downward factors:**

- Decline in revenues or operating profitability resulting in lower cash accruals of below Rs 5 crores
- Stretch in working capital cycle or large debt funded capex weakening the financial risk profile and liquidity

#### **About the Company**

KEL was incorporated in 1970 by Mr. H.K. Firodia , its currently managed by third generation i.e Mr. Ajinkya Arun Firoda (Managing Director & Chief Financial Officer). KEL is engaged in manufacturing of auto component and ancillary mainly shaft, gearbox assembly and transmission gears. KEL manufacturing facility is located in MIDC Chinchwad, Pune.

The company is listed in BSE Limited.

#### **Key Financial Indicators**

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	121.68	84.48
Reported profit after tax	Rs crore	1.36	-6.23
PAT margins	%	1.12	-7.37
Adjusted Debt/Adjusted Net worth	Times	5.62	8.89
Interest coverage	Times	2.13	1.06

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### **Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	Mar-27	6	NA	CRISIL BB+/Stable
NA	Corporate Loan	NA	NA	NA	9	NA	CRISIL BB+/Stable

#### **Annexure - Rating History for last 3 Years**

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	25.0	CRISIL BB+/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	10	Saraswat Bank	CRISIL BB+/Stable
Corporate Loan	9	Saraswat Bank	CRISIL BB+/Stable
Term Loan	6	Saraswat Bank	CRISIL BB+/Stable

This Annexure has been updated on 15-Mar-2023 in line with the lender-wise facility details as on 13-Mar-2023 received from the rated entity.

#### Criteria Details

<a href="#">Links to related criteria</a>
<a href="#">CRISILs Bank Loan Ratings</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>

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