

Rating Rationale

May 28, 2024 | Mumbai

Kinetic Engineering Limited

Rating reaffirmed at 'CRISIL BB+/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.25 Crore
Long Term Rating	CRISIL BB+/Stable (Reaffirmed)

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 reaffirmed its 'CRISIL BB+/Stable' rating on the long term bank facilities of Kinetic Engineering Limited (KEL).

The rating reflects KEL's extensive experience of promoters and established customer base and moderate financial risk profile. These strengths are partially offset by its susceptibility to volatility in raw material prices and working capital intensive operations.

Analytical Approach

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.

For arriving at its ratings, CRISIL Ratings has consolidated the business and financial risk profiles of Kinetic Engineering Ltd with its subsidiary Kinetic Watts and Volts Limited, CRISIL considers that the subsidiary is strategically important to, and have a significant degree of operational integration with Kinetic Engineering Ltd.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

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 a strong understanding of the market dynamics and develop healthy relationship with customers. KEL benefits from the 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 markets (with exports contributing 40-45% of the total revenues). As a result, revenues have been steadily increasing, estimated to reach Rs 152 to 153 crores in fiscal 2024 as compared to Rs 116 crores in Fiscal 2020.
- Moderate Financial Risk Profile:** The financial risk profile of the company has been moderate as reflected in the adjusted net worth of Rs 16 crores as on March 31, 2023, estimated to be around Rs 40 to 45 crores as on March 31, 2024, mainly due to the equity infusion in the current fiscal year 2024. With the equity infusion the capital structure is also estimated to improve with gearing and total outside liability to adjusted net worth ratio of 0.9 to 1.1 times and 1.7 to 1.9 times as on March 31, 2024 as against 2.88 times and 3.29 times as on March 31, 2023. The debt protection metrics remains average with interest cover of around 2.5 times for fiscal 2023 which is estimated to be in the similar range for fiscal 2024. Overall financial risk profile of the company is expected to improve over the medium term with the increase in the scale of operations and steady accretion to the reserves.

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 remains susceptible to commodity fluctuations. 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 during the short term. In addition, the company has high overheads in the form of employee costs which affects the profitability

of the company which is reflected in past losses till Fiscal 2020. Furthermore in the current fiscal year 2024 with increase in other expenses has led to the moderation in the EBITDA to around 4.97% for the 9 months ended Dec 2023 as against 10.28% in fiscal 2023. However, operating margins are expected to bounce back to 8% to 9% range in absence of the one time expenses incurred in current fiscal year. Any sharp fluctuation in the operating margins will remain a key monitorable over the medium term.

- **Working capital intensive operations:** Operations of the company remains working capital intensive as reflected in the gross current assets of around 217 days as on March 31, 2023 estimated to be in the similar range as on March 31, 2024. This mainly arises from the debtors of around 80 to 100 days mainly as the company offers a moderate credit period of around 60 to 100 days to its customers and the same is realized within the stipulated timelines. Furthermore as the company has huge product basket it has to maintain inventory of around 120 to 140 days. Working capital cycle further remains supported by the credit period received from the suppliers of around 180 to 200 days (company is able to stretch the same given the relationship with its suppliers). Operations are expected to remain working capital intensive over the medium term and hence remains key monitorable.

Liquidity: Stretched

Bank limit utilization is moderate at around 70 percent for the past twelve months ended Jan-2024. Cash accruals are expected to remain Rs 8-10 crores against repayment obligations of Rs 3.3 crores in Fiscal 2025 and 2026 respectively. In addition, it act as cushion to the liquidity of the company. Cash and cash equivalents stood at around Rs 7.6 crores as on Sep 2023.

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 7% resulting in higher cash accruals.
- Sustenance of the improved 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.

A majority owned subsidiary of Kinetic Engineering Limited, Kinetic Watts & Volts Limited was formed in September 2022. This subsidiary will be manufacturing 2-wheeler EV scooters, albeit operations are yet to start.

Key Financial Indicators

As on/for the period ended March 31	Unit	9M FY 2024	2023	2022
Operating income	Rs crore	103	135.49	121.68
Reported profit after tax	Rs crore	3.9	3.13	1.36
PAT margins	%	3.8	2.31	1.12
Adjusted Debt/Adjusted Networth	Times	NA	1.99	5.32
Interest coverage	Times	NA	2.50	2.13

FY 2023 Numbers Consolidated as the subsidiary was formed in September 2022.

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. 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.Crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	Mar-2027	6	NA	CRISIL BB+/Stable
NA	Corporate Loan	NA	NA	NA	9	NA	CRISIL BB+/Stable

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Kinetic engineering limited	Full	Parent
Kinetic Watts & Volts Limited	Ful	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	25.0	CRISIL BB+/Stable		--	15-03-23	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

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings
Rating criteria for manufacturing and service sector companies
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations	Jaya Mirpuri Director	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301

CRISIL Limited
M: +91 99204 93912
B: +91 22 3342 3000
AVEEK.DATTA@crisil.com

Prakruti Jani
Media Relations
CRISIL Limited
M: +91 98678 68976
B: +91 22 3342 3000
PRAKRUTI.JANI@crisil.com

Rutuja Gaikwad
Media Relations
CRISIL Limited
B: +91 22 3342 3000
Rutuja.Gaikwad@ext-crisil.com

CRISIL Ratings Limited
B: +91 22 3342 3000
jaya.mirpuri@crisil.com

Shalaka Singh
Associate Director
CRISIL Ratings Limited
B: +91 22 3342 3000
Shalaka.Singh@crisil.com

RAJ GUDHKA
Rating Analyst
CRISIL Ratings Limited
B: +91 22 3342 3000
RAJ.GUDHKA@crisil.com

For a copy of Rationales / Rating Reports:
CRISILratingdesk@crisil.com

For Analytical queries:
ratingsinvestordesks@crisil.com

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