

Rating Rationale

May 22, 2023 | Mumbai

Kun Aerospace Private Limited

Ratings upgraded to 'CRISIL BBB-/Stable/CRISIL A3'

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL BBB-/Stable (Upgraded from 'CRISIL BB/Stable')
Short Term Rating	CRISIL A3 (Upgraded from 'CRISIL A4+')

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 upgraded its ratings on the bank facilities of Kun Aerospace Private Limited (KAPL) to '**CRISIL BBB-/Stable/CRISIL A3**' from '**CRISIL BB/Stable/CRISIL A4+**'.

The upgrade in rating reflects the improvement in the business risk profile through higher revenues and improved margins, which are expected to sustain on account of healthy orderbook of over Rs 80 crore in hand, which provides revenue visibility for fiscal 2024. The company has reported a growth of ~65% in fiscal 2023, revenue stood at about Rs 71 crore as against Rs 43.3 crore in fiscal 2022. This is due to better order flow from existing customers, new customer acquisitions and better realizations. The margins have also improved owing to better capacity utilizations, lower raw material prices and better realizations. This has also led to better cash accruals and improved the financial profile of the company, through higher accretion to reserves. The net worth has improved from Rs 8.76 crore as on March 31, 2022, to about Rs 18.7 crore as on March 31, 2023. This has led to improvement in the capital structure as reflected by the estimated gearing of 1.4 times as on March 31, 2023, from over 3.2 times as on March 31, 2022. The debt protection metrics are also comfortable.

The rating on the bank facilities of Kun Aero Space Private Limited (KAPL) continues to reflect the extensive experience of KAPL's promoters and moderate financial risk profile. These strengths are partially offset by the moderate scale of operations and exposure to risk of geographic concentration in revenue profile and working capital intensive nature of operations.

Analytical Approach

Unsecured loan of Rs. 18.48 crore as on 31st March 2022, has been treated as neither debt nor Equity (NDNE).

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of promoters:** Extensive experience of the promoters is expected to continue to support the business risk profile of the company. Kun Aerospace, being part of the KUN group of companies which is established in the automobile dealership segment, is expected to continue to derive benefit from the same.
- **Moderate financial risk profile:** The capital structure of the company is moderate as reflected by the gearing, which was relatively high at 3.21 times as on March 31, 2022, due to modest net worth of Rs 8.7 crore. However, it has improved in fiscal 2023 and is estimated at 1.4 times as on March 31, 2023, supported by an improved net worth of Rs 18.7 crore. The net worth stood at Rs 8.76 crore as on March 31, 2022. However, it is likely to improve over the medium term, with gradual repayment of debt and steady accretion to reserves, thereby improving the net worth.

The company's debt protection metrics are also moderate, as reflected by the interest coverage and NCATD (Net cash accrual to total debt) of 4.94 and 0.25 times respectively in fiscal 2022. The same are expected to be comfortable in fiscal 2023, with interest coverage over 13 times and NCATD over 0.5 times in fiscal 2023.

Weaknesses:

- **Moderate scale of operations and exposure to risk of geographic concentration:** Scale of operations have been moderate, with revenue of Rs 43.3 crore in fiscal 2022. The same have improved to over Rs 71 crore in fiscal 2023.

However, further improvement in scale of operations will remain a key monitorable. Further, majority of the company's revenue is derived from exports to the US, leading to geographic concentration risk.

- **Working capital intensive operations:** The operations of KAPL continue to remain working capital intensive, marked by high gross current asset days (GCA) of around 277 days as on March 31, 2022, and estimated GCA days of 225 as on March 31, 2023. The same is due to higher inventory levels and elongated collection cycle. However, the risk is partly mitigated as most of their customers are large corporates like Pratt and Whitney, IEC Engineering Limited etc.

Liquidity: Adequate

Bank limit utilization is around 55.07 percent for the past twelve months ended March 2023. The cash accruals are expected to be over Rs 16-21 crore which are sufficient against term debt obligation of Rs 2-10 crore over the medium term. In addition, it will act as cushion to the liquidity of the company. Current ratio is healthy at 1.37 times on March 31, 2022. The promoters are likely to extend support in the form of equity and unsecured loans to meet its working capital requirements and repayment obligations.

Outlook: Stable

CRISIL Ratings believes KAPL will continue to benefit from the extensive experience of the promoter.

Rating Sensitivity factors

Upward factors:

- Significant increase in scale of operations and sustenance of operating margins at above 25%, leading to higher cash accruals; coupled with strong book providing revenue visibility
- Sustenance of the liquidity and financial risk profile

Downward factors:

- Significant dip in operating margins or dip in revenue of over 20%, leading to lower cash accruals
- Any major debt-funded capital expenditure or stretch in working capital cycle, leading to deterioration in the liquidity or financial risk profile

About the Company

KAPL, was born out of the diversified Kun Group and growing manufacturer in Chennai. Founded in 2011, KUN Aerospace caters to the needs of firms in the Aerospace, Medical, Energy, Oil and Gas sectors.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	43.30	36.87
Reported profit after tax	Rs crore	1.49	0.90
PAT margins	%	3.44	2.44
Adjusted Debt/Adjusted Net worth	Times	3.21	4.94
Interest coverage	Times	4.94	4.60

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 the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL BBB-/Stable
NA	Loan Equivalent Risk Limits	NA	NA	NA	2	NA	CRISIL BBB-/Stable
NA	Cash Credit	NA	NA	NA	8	NA	CRISIL BBB-/Stable
NA	Loan Equivalent Risk Limits	NA	NA	NA	0.5	NA	CRISIL BBB-/Stable
NA	Foreign Letter of Credit	NA	NA	NA	2	NA	CRISIL A3
NA	Standby Letter of Credit	NA	NA	NA	1	NA	CRISIL BBB-/Stable
NA	Bank guarantee	NA	NA	NA	0.6	NA	CRISIL A3

NA	Proposed fund-based bank limits	NA	NA	NA	8.9	NA	CRISIL BBB-/Stable
NA	Proposed long-term bank loan facility	NA	NA	NA	17	NA	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

		Current		2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	46.4	CRISIL BBB-/Stable		--	17-03-22	CRISIL BB/Stable	27-01-21	CRISIL BB/Stable		--	CRISIL BB/Stable
Non-Fund Based Facilities	ST/LT	3.6	CRISIL BBB-/Stable / CRISIL A3		--	17-03-22	CRISIL A4+	27-01-21	CRISIL BB/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	0.6	Kotak Mahindra Bank Limited	CRISIL A3
Cash Credit	10	Kotak Mahindra Bank Limited	CRISIL BBB-/Stable
Cash Credit	8	Axis Bank Limited	CRISIL BBB-/Stable
Foreign Letter of Credit	2	Kotak Mahindra Bank Limited	CRISIL A3
Loan Equivalent Risk Limits	2	Kotak Mahindra Bank Limited	CRISIL BBB-/Stable
Loan Equivalent Risk Limits	0.5	Axis Bank Limited	CRISIL BBB-/Stable
Proposed Fund-Based Bank Limits	8.9	Not Applicable	CRISIL BBB-/Stable
Proposed Long Term Bank Loan Facility	17	Not Applicable	CRISIL BBB-/Stable
Standby Letter of Credit	1	Kotak Mahindra Bank Limited	CRISIL BBB-/Stable

This Annexure has been updated on 22-May-23 in line with the lender-wise facility details as on 23-Jan-23 received from the rated entity

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Understanding CRISILs Ratings and Rating Scales
CRISILs Criteria for rating short term debt

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