Rating Rationale

August 14, 2024 | 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 BBB-/Stable')**
Short Term Rating	**CRISIL A3+ (Upgraded from 'CRISIL A3')**

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 BBB-/Stable/CRISIL A3'.

The upgrade in rating reflects the improvement in the business risk profile through higher revenues and sustenance of healthy margins, which are expected to sustain on account of healthy orderbook, which provides revenue visibility for fiscal 2025. The company has reported a growth of ~34% in fiscal 2024, revenue stood at about Rs 94.57 crore as against Rs 70.48 crore in fiscal 2023. This is due to better order flow from existing customers, new customer acquisitions and better realizations. Earnings before interest, taxes, depreciation, and amortization (EBIDTA) margins have also improved to over 30 percent in fiscal 2023 and fiscal 2024 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 18.75 crore as on March 31, 2023, to about Rs 34.22 crore as on March 31, 2024. This has led to improvement in the capital structure as reflected by the gearing of 0.74 times as on March 31, 2024, from over 1.4 times as on March 31, 2023. The debt protection metrics are also comfortable.

The rating 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. 19.96 crore as on 31st March 2024, has been treated as neither debt nor Equity (NDNE) since it is expected to be continued in the business over the medium term.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of promoters:** Extensive experience of the promoters of more than 3 decades 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.

- **Healthy financial risk profile:** The capital structure of the company is healthy as reflected in improvement in gearing to 0.76 time as on 31st march 2024 from 1.40 time as on 31st march 2023 on account of healthy accretion to reserves leading to comfortable net worth of Rs.34.22 crore as on 31st march 2024. The net worth stood at Rs 18.75 crore as on March 31, 2023. The company's debt protection metrics are also comfortable, as reflected by the interest coverage and NCATD (Net cash accrual to total debt) of 15.25 and 0.82 times respectively in fiscal 2024.

Weaknesses:

- **Moderate scale of operations and exposure to risk of geographic concentration:** Scale of operations has been moderate, with revenue of Rs. 94.57 crore in fiscal 2024. 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:** Despite improvement in working capital cycle, the operations of KAPL continue to remain working capital intensive, marked by high gross current asset days (GCA) of around 232 days as on March 31, 2024. 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 utilisation is moderate at around 80 percent for the past twelve months ended June 2024. Cash accruals are expected to be in the range of Rs.25 to 30 crore per annum against which there is term debt obligation of Rs.1.9 crore per annum. In addition, it will act as cushion to the liquidity of the company. Current ratio is healthy at 1.83 times on March31, 2024. 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 28%, 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 is a 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	Unit	2024*	2023
Operating income	**Rs.Crore**	**94.57**	**70.48**
Reported profit after tax	**Rs.Crore**	**14.56**	**10.00**
PAT margins	**%**	**16.35**	**14.18**
Adjusted Debt/Adjusted Networth	**Times**	**0.76**	**1.40**
Interest coverage	**Times**	**15.27**	**11.53**

**Provisional*

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.

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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.Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	8	NA	CRISIL BBB/Stable
NA	Cash Credit	NA	NA	NA	20	NA	CRISIL BBB/Stable
NA	Loan Equivalent Risk Limits	NA	NA	NA	5	NA	CRISIL A3+
NA	Long Term Loan	NA	NA	Jul-2029	17	NA	CRISIL BBB/Stable

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	50.0	CRISIL A3+ / CRISIL BBB/Stable	--	--	22-05-23	CRISIL BBB-/Stable	17-03-22	CRISIL BB/Stable	27-01-21	CRISIL BB/Stable	CRISIL BB/Stable
Non-Fund Based Facilities	ST/LT	--	--	--	--	22-05-23	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
Cash Credit	**8**	**Axis Bank Limited**	**CRISIL BBB/Stable**
Cash Credit	**20**	**Kotak Mahindra Bank Limited**	**CRISIL BBB/Stable**
Loan Equivalent Risk Limits	**5**	**Kotak Mahindra Bank Limited**	**CRISIL A3+**
Long Term Loan	**17**	**Kotak Mahindra Bank Limited**	**CRISIL BBB/Stable**

Criteria Details

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

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