

August 4, 2010

**CARE ASSIGNS 'CARE BBB+' RATING TO THE PROPOSED NCD ISSUE OF KEMROCK INDUSTRIES AND EXPORTS LTD.**

**Rating**

Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Non Convertible Debenture	150.00	CARE BBB+ [Triple B Plus]	Assigned
<b>Total</b>	<b>150.00</b>		

**Rating rationale**

The rating take in to account established presence of KIEL as an emerging player in the composite industry, its professional management team, multiple technologies with wide product range, good profitability margins, proven technical knowhow along with ability to form JV with companies of repute, backward integration for manufacturing resins with increasing trend of captive consumption and completion of the expansion projects albeit with time over run. The rating also considers augmentation of net worth of KIEL by way of GDR issue & conversion of warrants into equity, commencement of trial run of India's first carbon fibre project which has national importance and expected improvement in the operating efficiency & capital turnover ratio in the medium term. CARE has also factored expected benefit of operational synergy to the company due to recent overseas acquisition.

The rating however, constrained by risk associated with generation of expected returns as well as free cash flow from the completed/ongoing projects considering bunching of repayment in the FY11, long working capital cycle, risk of crude oil price movements & foreign exchange fluctuation and competition from substitute products which limit overall market size. Rating is also constrained by increase in project risk on consolidated basis. Nonetheless, rating also considers management's plan for execution of majority of the future capital expenditure in separate subsidiaries without any recourse to KIEL which would limit overall size of investment & need to support its subsidiaries.

Generation of envisaged cash flow from the added capacities, improvement in the working capital management and more than expected investment in subsidiaries are key rating sensitivities.

**Company Profile**

KIEL is engaged in manufacturing of FRP (Fibre Glass Reinforced Polymer) products and resins. M/s RPM International Inc. USA, which is one of the leading global players in composite industry, is one of the strategic partners of the company.

KIEL has established India's first carbon fibre mini plant with capacity of 400 MTPA during May 10. Carbon fiber is a very strong, light, and expensive composite material. It has applications in aerospace, wind energy, and automotive fields where its high strength-to-weight ratio is of importance. The project is well supported by various reputed agencies like NAL, Defense Research Development Organization (DRDO) and Indian Space Research Organization (ISRO).

For FY10, KIEL reported total income of Rs.455.17 crore (previous year: Rs.365.30 crore) and PAT of Rs.39.37crore (previous year: Rs.31.82 crore).

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