

Kernex Microsystems (India) Ltd — 04 Nov 2025 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	New Assignment: Long-term: CARE BBB-; Stable / Short-term: CARE A3
Outlook	Current: Stable (Assigned based on strong order visibility and Kavach 4.0 approval)
Key Drivers of Change	<ol style="list-style-type: none"> Massive Order Book: ₹2,563 Cr (as of Sept 2025), offering 13.5x revenue visibility. Operational Turnaround: FY25 Revenue surged to ₹189.88 Cr (from ₹19.60 Cr in FY24) with 21.55% margins. Strategic Oligopoly: 1 of only 3 OEMs with patented KAVACH technology; recently secured RDSO 4.0 approval. De-leveraged Balance Sheet: Gearing at a comfortable 0.26x following ~₹100 Cr equity infusion in FY23-24.
Rated Instruments	<ul style="list-style-type: none"> Cash Credit: ₹175.00 Cr
Key Observations	<p>Positives:</p> <ul style="list-style-type: none"> High entry barriers (SIL 4 safety standards). Transition from R&D phase to commercial execution. Interest coverage improved to 5.91x in FY25. <p>Risks:</p> <ul style="list-style-type: none"> Working Capital Stress: 171-day cycle due to long assembly/testing and limited supplier credit. Concentration: 100% revenue dependence on Indian Railways. Pricing Power: Tender-based (L1) bidding limits margin expansion despite high tech. Execution: Tech upgrades (3.2 to 4.0) can stall billing during recertification.
Investor Impact	<ul style="list-style-type: none"> Growth: Exponential revenue runway through 2,500 Loco TCAS order (₹1,730 Cr). Margins: Current 21% is healthy, but tender-based nature caps upside. Leverage: Debt will increase to fund working capital, but low current gearing (0.26x) provides headroom. Dilution Risk: Low in near term given recent ₹100 Cr infusion and ₹35 Cr cash accruals.
Agency / Cross Analysis	<p>Initial Rating: This is a fresh assignment.</p> <p>Historical Context: Company moved from a "Loss-making/Muted" phase (FY17-FY22) post-ACD discontinuation to a "Growth/Turnaround" phase (FY25) following Kavach commercialization.</p> <p>Conclusion: Improvement. The rating recognizes the shift from a technology-risk entity to an execution-focused railway vendor.</p>
Final Inference	KMIL has successfully crossed the "valley of death" between R&D and commercialization. While the ₹2,563 Cr order book is a massive bull signal for equity, the 171-day working capital cycle is the critical monitorable that could constrain cash flows.