Kernex Microsystems (India) Ltd — Rating update 2d Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	**BBB-** → **BBB** (Long Term) and **A3** → **A3+** (Short Term); 1-notch upgrade.
Outlook	Stable (Current) vs Stable (Previous).
Key Drivers of Change	1. **Exponential Revenue:** TOI grew 127% to ₹430.54 Cr (FY26) and surged to ₹503.58 Cr in Q1FY27 alone, driven by TCAS (Kavach) execution. 2. **Profitability Expansion:** PBILDT margins jumped 1,308 bps to 34.63% (FY26) due to operating leverage and favorable demand. 3. **Tech Validation:** RDSO approval for Kavach Version 4.0 (Oct 2025) accelerated project billing and execution velocity. 4. **Strong Order Book:** Outstanding orders of ₹3,474 Cr (8.07x FY26 TOI) provide multi-year revenue visibility.
Rated Instruments	1. **LT Cash Credit:** ₹525.00 Cr
Key Observations	• **Strategic Moat:** One of only three OEMs authorized for Kavach; high entry barriers due to SIL-4 safety standards. • **Turnaround Success:** Shifted from losses (pre-FY25) to healthy PAT of ₹88.24 Cr (FY26) and ₹109.85 Cr (Q1FY27). • **Working Capital Trap:** Highly intensive operations with 136-day cycle; inventory-heavy due to RDSO-approved vendor lead times. • **Negative Cash Flow:** CFO was negative ₹97.46 Cr in FY26 despite profits, highlighting the cost of scaling. • **Concentration Risk:** ~54% of order book (₹1,870 Cr) tied to a single locomotive order from Chittaranjan Locomotive Works. • **Capital Structure:** Gearing remains comfortable at 0.67x, though rising (from 0.26x) to fund working capital.
Investor Impact	• **Growth:** Hyper-growth phase; Q1FY27 revenue already exceeded full-year FY26 performance. • **Margins:** Exceptional 30%+ EBITDA margins are currently sustainable but subject to L1 tender-based pricing pressure. • **Leverage:** Increasing reliance on bank debt for working capital; however, interest coverage is robust at 12.31x (Q1FY27). • **Dilution Risk:** Low in the near term following ₹105.71 Cr total equity infusion in FY23-FY24.
Agency / Cross Analysis	**Same Agency:** CARE upgraded the entity following the transition from a "developing technology" phase to a "commercial execution" phase. • **Financials:** Debt levels rose (₹175 Cr to ₹525 Cr limits), but are justified by the massive scale-up in TOI and order book. • **Conclusion: Significant Improvement.** The upgrade reflects reduced technology risk and the successful monetization of the Kavach 4.0 patent.
Final Inference	**Real operational breakout.** The company has transitioned from an R&D-heavy loss-maker to a high-margin industrial monopoly player. While negative operating cash flow is a red flag, it is a byproduct of rapid scaling in a government-contracting environment rather than poor core economics.