

ACRA ASSIGNS BBB(RU) TO JSC “KZA”, OUTLOOK STABLE

ILYA MAKAROV

Director, Corporate Ratings Group

+7 (495) 139 04 80, ext. 220
ilya.makarov@acra-ratings.ru

OLEG MORGUNOV

Associate Director, Corporate Ratings Group

+7 (495) 139 04 80, ext. 175
oleg.morgunov@acra-ratings.ru

The credit rating of JSC “KZA” (hereinafter, KZA, or the Company) is based on medium assessments of the Company’s market position, business profile, geographic diversification, corporate governance, and financial risk profile.

KZA is a small enterprise by the standards of the Russian corporate sector that manufactures components of piston cylinder assemblies for engines used in a wide range of domestic motor vehicles (URAL, VAZ, UAZ, and KAMAZ).

KEY ASSESSMENT FACTORS

The market position is medium as the Company is a key supplier of parts for most Russian manufacturers of engines and motor vehicles, including AVTOVAZ, AMZ, VMTZ, KAMAZ, YAM3, ZMZ, MMZ, TMZ, and UMZ, although its product range is rather narrow.

The medium business profile assessment reflects the lack of significant contracted volumes. At the same time, KZA’s sales are quite stable. The Company has a number of three-year contracts with a pricing formula. The sales markets of KZA products are highly volatile and cyclical, which explains the low score for the “Characteristics of Sales Markets” sub-factor. The score for the “Dependence on Subcontracting and Components” sub-factor is high since the Company carries out the entire manufacturing process using purchased metal blanks.

The assessment of geographic diversification is medium as the share of exports is less than 20% of the Company’s annual revenue.

The medium assessment of corporate governance takes into account the presence of long-term strategic goals of KZA; however, the Company’s strategy has not been formalized. Relevant risks are assessed by different bodies within their competence, while no risk committee has been established. The score for the “Management Structure” sub-factor is high since the Company has a board of directors, two members of which are independent. A very high score for the group’s structure is because the rated entity is a single company. KZA prepares only RAS financial statements, so the “Financial Transparency” sub-factor is assessed at a low level.

The medium assessment of the financial risk profile reflects a low score of the size of the business (the absolute value of FFO before net interest and taxes is less than RUB 5 bln) and high profitability (the ratio of FFO before interest and taxes to revenue was 16% in 2023 vs. 13% in 2022; ACRA expects that the average value of this indicator will be 13% in the forecast period from 2024 to 2026). The ratio of total debt to FFO before net interest decreased to 1.4x in 2023 from 3.2x in 2022. The Agency believes that in 2024 the Company’s leverage will increase to 2.7x, taking into account the need to finance the investment program. The medium score for

coverage is explained by the ratio of FFO before net interest to interest that equaled 5.2x in 2023 vs. 2.6x in 2022. ACRA expects this indicator to decrease to 3.1x due to an increase in interest payments.

Liquidity is at a low level, as the Company largely uses short-term bank credit lines. The Company's cash flow is assessed as high given the high FCF margin (over 5%) and the very high ratio of capex to revenue (about 5%).

KEY ASSUMPTIONS

- Successful implementation of the Company's plans for revenue and operating cash flow in the forecast period from 2024 to 2026.
- The total volume of capital investments in 2024–2026 in accordance with the approved business plan.
- The average FFO before interest and taxes margin about 13% in the forecast period.
- Moderate dividend payments in the forecast period.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- The ratio of FFO before net interest to interest exceeding 5.0x.

A negative rating action may be prompted by:

- The ratio of FFO before net interest to interest declining below 2.5x.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **bbb**.

Adjustments: none.

ISSUE RATINGS

No outstanding issues have been rated.

REGULATORY DISCLOSURE

The credit rating has been assigned under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

A credit rating has been assigned to JSC "KZA" for the first time. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on the data provided by JSC "KZA", information from publicly available sources, and ACRA's own databases. The rating analysis was carried out using the RAS financial statements of JSC "KZA". The credit rating is solicited, and JSC "KZA" participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

The decision to assign a BBB(RU) credit rating, outlook Stable, to JSC "KZA" was made at a repeat meeting of the rating committee, taking into account ACRA's review of an appeal against the rating committee's decision to assign a BBB-(RU) credit rating, outlook Stable, to JSC "KZA". The Company provided additional information on its importance and position on the Russian market. The level of the credit rating was changed following the review of the appeal.

ACRA provided no ancillary services to JSC "KZA". No conflicts of interest were identified in the course of credit rating assignment.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
1 Bldg. 2 Bolshoi Gnezdnikovskiy Lane, Moscow, Russia
www.acra-ratings.ru

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