

ACRA AFFIRMS BBB-(RU) TO PJSC “KIROVSKY ZAVOD”, OUTLOOK POSITIVE

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The credit rating of PJSC “Kirovsky Zavod” (hereinafter, Kirovsky Zavod, the Company, or the Group) has been affirmed and the rating outlook remains Positive due to the improvement of the following indicators: ratio of total debt to equity and the ratio of capital expenditures to revenues. The FFO margin before interest and taxes improved in 2022, however, in the forecast period from 2023 to 2025, it will be necessary to ensure the stability of this trend and maintain this indicator at no lower than 15%, taking into account the strategic changes taking place in the Company. The rating continues to be constrained by the low scores for free cash flow (FCF) and the ratio of total debt to equity.

Kirovsky Zavod is a conglomerate of machinery production enterprises located in Saint Petersburg. The Group’s main activity is the production of agricultural machinery under the Kirovets brand. The Group is one of Russia’s leading players in this segment. The Group also includes metallurgical production and enterprises producing industrial machinery. ACRA has no information on whether the Company has a controlling ultimate beneficiary.

KEY ASSESSMENT FACTORS

The Company’s medium business profile and market position stem from the backlog of less than 1.5x annual revenues and the moderate potential for growth in the market capacity. However, ACRA notes increased demand for the Company’s key product, the 150 HP tractor, which ensures full and stable utilization of its manufacturing capacities. The medium score for the diversification of sales markets takes into account the low share of exports in the sales structure (less than 20%).

The score for the Dependence on Sub-contracting and Components sub-factor takes into account the fact that the share of subcontracting in the prime cost is less than 40%. The share of work done by the Company itself is growing. Investments in assets and personnel allow the Company to reduce its reliance on subcontractors. The share of components purchased by the Group is about 38%. This share is expected to decline by no less than 5% after the Company starts manufacturing tractor axles by itself.

The medium assessment of corporate governance takes into account the Company’s long-term strategic goals, improving risk management system, election of a CEO with sound industry experience, as well as a board of directors with a wide presence of independent directors. ACRA expects the Company to continue improving its corporate governance by adopting a dividend policy and a policy for managing conflicts of interest, as well as by forming key committees: strategy, personnel and remuneration, and investment policy. De-offshorization of the companies controlling the Group’s share capital will facilitate the formation of a transparent ownership structure.

The **medium financial risk profile assessment** is driven by the medium assessment of the size of business (the absolute value of FFO before net interest and taxes is less than RUB 30 bln) and high profitability (the ratio of FFO before interest payments and taxes to revenues for 2022 amounted to 21% vs. 10% in 2021). ACRA expects average profitability to be at least 15% in the forecast period of 2023–2025. The ratio of total debt to FFO before net interest payments declined to 2.0x in 2022 vs. 3.1x in 2021. ACRA assumes that the Company's leverage will grow to 4.8x in 2023 taking into account the need to finance the investment program, and then decline to 3.7x in 2024.

FCF was close to zero in 2022, however, by the end of this year ACRA expects it to turn negative due to an increase in capital expenditures. The Group's short-term liquidity indicator has worsened slightly compared to last year due to growth in the volume of cash, but the score for this indicator is medium due to high dependence of liquidity on undrawn credit limits under revolving credit lines provided by banks.

KEY ASSUMPTIONS

- The Company meeting its revenue and operating cash flow targets in the forecast period of 2023–2025;
- Total capital investments in line with the business plan in 2023–2025;
- Average FFO before interest payments and tax margin at no lower than 15% in the forecast period;
- No major dividend payments in 2023–2025.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Positive outlook** assumes that the rating will highly likely be upgraded within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Ratio of total debt to equity falling below 2.0x and the weighted FFO margin before interest payments and taxes consistently above 15%.

A negative rating action may be prompted by:

- Weighted FFO margin before interest payments and taxes falling below 15%;
- Ratio of total debt to FFO before net interest payments exceeding 3.5x;
- Ratio of FFO before net interest payments to interest payments falling below 2.5x.

RATING COMPONENTS

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

Support: 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](#).

The credit rating of PJSC “Kirovsky Zavod” was published by ACRA for the first time on November 5, 2019. 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 data provided by PJSC “Kirovsky Zavod”, information from publicly available sources, and ACRA’s own databases. The rating analysis was performed using the IFRS financial statements of PJSC “Kirovsky Zavod”. The credit rating is solicited and PJSC “Kirovsky Zavod” 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.

ACRA provided no additional services to PJSC “Kirovsky Zavod”. No conflicts of interest were discovered in the course of credit rating assignment.

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