

KSP Auto & Forge Private Limited: Downgraded

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	5.00	SMERA BB-/Stable (Downgraded from SMERA BB/Stable)
Term Loan	0.90	SMERA BB-/Stable (Downgraded from SMERA BB/Stable)
Cash Credit (Proposed)	2.00	SMERA BB-/Stable (Assigned)
Term Loan (Proposed)	0.90	SMERA BB-/Stable (Assigned)

SMERA has downgraded the rating on the Rs.5.90 crore bank facilities of KSP Auto & Forge Private Limited (KAFPL) from 'SMERA BB' (read as SMERA double B) to '**SMERA BB- (read as SMERA double B minus)**'. Further, SMERA has assigned the rating of '**SMERA BB- (read as SMERA double B minus)**' to the Rs.2.90 crore bank facilities. The outlook is '**Stable**'.

The rating downgrade is in view of the company's deteriorated capital structure and working capital cycle. The ratings are further constrained by the modest scale of operations and intense competition. However, the ratings continue to be supported by the experienced management and diverse product profile.

Update

KAFPL is engaged in the manufacture and supply of forged components, auto parts among others. The company's revenues are modest at around Rs.20.80 crore that have increased from Rs.17.69 crore on the back of healthy order book. Further the company has earned revenues of Rs.16.76 crore during April to October, 2016.

The gearing deteriorated to 3.15 times as on March 31, 2016 as compared to 1.84 times as on March 31, 2015 mainly on account of addition of debt utilised for capital expenditure and investment in group concern. The company has made investments of Rs.3.25 crore as against networth of Rs.3.72 crore in ANC Industries Private Limited, a former customer of the company.

The company plans to increase capacity at a cost of around Rs.1.20 crore to be funded through a term loan of Rs.0.94 crore and the rest through promoter's contribution of Rs.0.26 crore. SMERA believes that the gearing will remain at high levels in the near to medium term. The interest coverage ratio stands moderate at around 2.31 times and DSCR at 1.34 times in FY2016. However, SMERA believes that the coverage indicators would deteriorate over the medium term due to increase in interest cost and debt repayment.

The gross current asset stands high at around 224 days in FY2016 compared to 211 days in FY2015 mainly on account of increase in debtors from 115 days to 150 days in FY2016. Further, the average cash credit utilisation stands high at around 92 per cent during May to October, 2016.

Rating Sensitivity Factors

- Scaling up revenues and profitability
- Comfortable capital structure
- Efficient working capital management

Criteria applied to arrive at the ratings:

- Manufacturing Entities

Outlook – Stable

SMERA believes that KAFPL will maintain a stable outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers substantial increase in scale of operations while maintaining comfortable operating profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or registers deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Company

Incorporated in 1993, the Gujarat-based KAFPL, was converted into a private limited company in 2008. The company, promoted by Shri Kishor Kathrotia and partner, Shri Satish Bera is engaged in the manufacture and supply of forged components, auto parts, CNC turned components among others. The products find application in several industries including automobile, oil and gas, home appliances, and the railways. Around 60-70 per cent of revenues are generated from the automobile industry. The company is ISO 9001:2008 certified and has its manufacturing unit at Rajkot, Gujarat.

For FY2015-16, KAFPL reported profit after tax (PAT) of Rs.0.11 crore on operating income of Rs.20.80 crore, as compared to net losses of Rs.0.17 crore on operating income of Rs.17.69 crore in FY2014-15.

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
28 August, 2015	Cash Credit	5.00	SMERA BB (Assigned)	-	Stable
	Term Loan	0.90	SMERA BB (Assigned)	-	Stable

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ABOUT SMERA

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