

Press Release

KOSC Industries Private Limited (KOSCIPL)

01 February, 2017

Rating Reaffirmed

| | |
|------------------------------------|------------------------------|
| Total Bank Facility Rated * | Rs.13.90 Crore |
| Long Term Rating | SMERA BB/Stable (Reaffirmed) |
| Short Term Rating | SMERA A4+ (Reaffirmed) |

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.13.90 crore bank facilities of KOSC Industries Private Limited (KOSCIPL). The outlook is '**Stable**'.

KOSCIPL was incorporated in 2004. The company is engaged in the manufacture of ERW MS pipes and tubes. The promoters, Mr Suresh Kumar and Mr Pankaj Kumar have over a decades experience in the pipes and tubes industry.

List of key rating drivers and their detailed description

Strengths:

Experienced management- The directors Mr. Suresh Kumar and Mr. Pankaj Kumar have over a decades experience in the pipes and tubes industry.

Stable growth in revenue - KOSCIPL registered stable growth in revenue at Rs.70.67 crore in FY2016 from Rs.61.20 crore in FY2015. The company has registered CAGR in revenue at 11.64 per cent over the last four years.

Moderate financial risk profile- The company has maintained moderate financial risk profile marked by net worth base of Rs.8.94 crore in FY2016 as against Rs.7.23 crore in FY2015. SMERA has considered interest free unsecured loan from promoters of Rs.5.75 crore as quasi-equity based on undertaking received from the company confirming the maintenance of the said amount over the medium term. The gearing (debt-equity ratio) improved to 1.62 times in FY2016 as against 2.07 times in the previous year. The interest coverage marginally increased to 1.35 times in FY2016 from 1.31 times in the previous year.

Expansion of current capacity- KOSCIPL is expanding its current installed capacity from 18,000 MT per annum to 37,680 MT per annum. The expansion is at the verge of completion and production from additional capacity is expected to commence from January'17 onwards. Going forward, revenue is expected to increase on account of additional capacity. In addition the company plans to add new product line in the form of MS Scaffoldings & Roofing Sheet.

Weaknesses:

High volume low margin - KOSCIPL is exposed to high volume low margin - an inherent nature of steel pipes and tube industry where ~ direct material cost is almost 95 per cent. However the company has shown

improvement in reporting operating margins at 4.03 per cent in FY2016 from 2.89 per cent in FY2014. Going forward, the same is expected to improve further with value added products - MS Scaffolding in its portfolio.

Working capital intensive operations- The operations of KOSCIPL are working capital intensive marked by gross current asset days of 116 in FY2016 as compared to 126 days in FY2015. This is due to funds getting blocked in the form of inventory and debtors. Inventory and debtor stands at 44 and 68 days respectively in FY 2016.

Competition from players in steel pipes and tube industry- KOSCIPL faces competition from other organized and unorganised players in steel pipes and tubes industry.

Analytical approach- SMERA has considered the standalone financial performance and financial risk profiles of the company.

Applicable Criteria

- Manufacturing: <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Outlook - Stable

SMERA believes that KOSCIPL will maintain a stable outlook and benefit from the experience of its promoters over the medium term. The outlook may be revised to 'Positive' in case the company scales up its operations significantly while achieving improvement in capacity utilization with improvement in profitability and better working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company reports less than envisaged sales in case capacity utilization deteriorates thereby increasing pressure on margins and weakening of capital structure due to high working capital requirements.

About the Rated Entity

KOSCIPL, incorporated in 2004 (the erstwhile SKP Pipes Private Limited) is a Kolkata-based company engaged in the manufacture of ERW Pipe & MS Sheet. The company is expanding its current installed capacity from 18,000 MT per annum to 37,680 MT per annum apart from addition of products in the form of MS Scaffolding and roofing sheet. The manufacturing unit is located at West Bengal and the day-to-day operations are managed by Mr. Suresh Sharma, Pankaj Sharma and Mr. Bimal Sharma.

For FY2016, KOSCIPL reported Profit after Tax (PAT) of Rs.0.23 crore on total operating income of Rs.70.67 crore as compared with PAT of Rs.0.21 crore on total operating income of Rs.61.20 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

| Name of Facilities | 2017 | | | | 2016 | | 2015 | | 2014 | |
|--------------------|-------|-------------|--------------------|------------------------------|---------------|----------------------------|------|--------|------|--------|
| | Scale | Date | Amount (Rs. Crore) | Rating with Outlook | Date | Rating | Date | Rating | Date | Rating |
| Term Loan | LT | 31-Jan-2017 | 0.90 | SMERA BB/Stable (Reaffirmed) | 09 March 2016 | SMERA BB/Stable (Assigned) | - | - | - | - |
| Cash Credit | LT | 31-Jan-2017 | 12.00 | SMERA BB/Stable (Reaffirmed) | 09 March 2016 | SMERA BB/Stable(A ssigned) | - | - | - | - |
| Letter of Credit | ST | 31-Jan-2017 | 1.00 | SMERA A4+ (Reaffirmed) | 09 March 2016 | SMERA A4+ (Assigned) | - | - | - | - |

***Annexure – Details of instruments rated:**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/ Outlook |
|------------------------|------------------|-------------|---------------|-------------------------------|------------------------------|
| Term Loan | NA | NA | March 2020 | 0.90 | SMERA BB/Stable (Reaffirmed) |
| Cash Credit | NA | NA | NA | 12.00 | SMERA BB/Stable (Reaffirmed) |
| Letter of Credit | NA | NA | NA | 1.00 | SMERA A4+ (Reaffirmed) |

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

| Analytical | Rating Desk |
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| Mr. Vinayak Nayak, Head –Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in | Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in |
| Mr. Aniruddha Dhar Rating Analyst, Tel:033-66201200 Email: aniruddha.dhar@smera.in | |

ABOUT SMERA

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