

Press Release

KBS Industries Private Limited

August 28, 2020



Rating Reaffirmed

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 110.00 crores |
| Long Term Rating | ACUITE BBB/ Outlook: Stable (Reaffirmed) |
| Short Term Rating | ACUITE A3+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 110.00 crores bank facilities of KBS Industries Private Limited (KBSPL). The outlook is '**Stable**'.

KBSPL was incorporated in 2012 and the company is engaged in the manufacturing of semi-finished copper and copper alloy products like rods, bus bars, strips, plates, wires, sheet and circles for a wide range of engineering, electrical and manufacturing industries. The company has two manufacturing facilities located in Haryana and Silvassa with the installed capacity of 5,200 Metric tons per annum and 5,600 Metric tons per annum, respectively.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KBSPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and healthy order book position**

KBSPL is promoted by Mr. Anil Anand, Ms. Monica Sachdeva, Mr. Arjun Anand, Mr. Gaurab Jhanwar, Mr. Hetal Kishor Vora and Ms. Komal Churiwala. The promoters have over a decade of experience in the copper alloy manufacturing industry. The experience of the promoters has enabled the company to maintain long and healthy relationships with its customers and suppliers for nearly a decade. Further, the company has been able to achieve a healthy scale of operations with a decade of vintage which is reflected by the annual turnover of Rs. 312.59 crores in FY2020 as against Rs. 378.08 crores in the previous year. The decline in the sales is on account of discontinuation of trading activities undertaken by the company in the previous years.

In the FY2019 the company has expanded the capacity of their manufacturing facilities by the addition of Silvassa plant with the installed capacity of 5,600 metric tons per year which in addition to the installed capacity of Haryana plant (installed capacity 5,200 MT/annum) sums up to 10,800 MT/Annum. Acuité believes KBSPL will continue to benefit over the medium term from its longstanding association with its key supplier as well as customers.

- **Healthy financial risk profile**

KBSPL's financial risk profile is healthy marked by healthy net worth, low gearing and moderate debt protection measures. The company's net worth increased to Rs.68.50 crore as on 31 March, 2020 (Provisional) as against Rs.55.04 crore in the previous year on account of stable profitability leading to higher accretion to reserves. KBSPL's gearing is estimated to be low at 0.80 times as on 31 March, 2020 (Provisional) as against 0.86 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 1.14 times as on March 31, 2018. The total debt of Rs.54.52 crore consists of long term debt of Rs.0.36 crore, unsecured loans from promoters amounting to Rs. 2.00 crores and Rs.52.16 crore of working capital limits as on 31st March 2020 (Provisional). The moderate profitability levels have resulted in moderate net cash accruals of Rs.5.61 crore during FY2020 (Provisional) against repayment obligations of Rs. 0.20 crores. The interest coverage ratio stood at 1.90 times in FY2020 (Provisional) as against 2.85 times in the previous year. The Debt service coverage ratio as on 31st March 2020 (Provisional) stands at 1.70 times. Further, NCA/TD

ratio stood 0.25 times in FY2020 (Provisional).

Weaknesses

- **Working Capital Intensive Operations**

KBSPL's working capital operations are intensive in nature. The company reported significant accumulation of inventory levels in FY2020 (Provisional), resulting in an increase in the inventory holding period to 135 days from 83 days in FY2020 (Provisional). The increase in the inventory levels can be attributed partly to the advent of COVID pandemic leading to the increase in year-end work in progress inventory levels further the increase is also due to the additional inventory maintained for the new plant in Silvassa.

Further, the debtor collection period of the company witnessed the same trend as previous years standing at 35 days in FY2020 (Provisional) as against 31 days in the previous year. Consequently, the Gross Current Assets (GCA) also increased to 177 days in FY2020 (Provisional) as against 116 days in FY2019. Further, the creditor collection period stood at 69 days as on March 2020 (Provisional). The average bank limit utilization of the company for the last 6 month period ending on 30th June 2020 stood high at around 99.46%. Acuité believes that KBSPL's credit risk profile will remain dependent on its ability to manage its working capital requirements over the near to medium term.

- **Susceptible to fluctuations in prices of raw material and forex rates**

The major raw material of the company is copper scrap. The prices of the same are fluctuating in nature; therefore the operating profit margins of the company is susceptible to raw material price fluctuation. Further, KBS imports part of its raw material from Dubai. Thus, it is exposed to adverse fluctuation in foreign currency exchange rates.

Rating Sensitivity

- Significant improvement in the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile and improvement in working capital intensity.
- Deterioration in working capital.

Material Covenants

None

Liquidity position: Stretched

The company has stretched liquidity marked by high utilization of bank limits. KBS generated cash accruals of Rs.8.15-5.61 crore during the last three years through 2018-20 (Prov.), while the maturing debt obligations were in the range of Rs.4.55-0.10 crore over the same period. The cash accruals are estimated to be in the range of Rs.6.03-6.91 crore during 2021- 23, while its repayment obligations are negligible at around Rs. 0.16 crores. KBS maintains cash and bank balances of Rs.1.27 crore as on March 31, 2020 (Prov.). The current ratio stood moderate at 1.27 times as on March 31, 2020 (Prov.). The bank limit utilisation for the last 6 months ending on June 2020 stands at around 99.46%. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of high bank limit utilisation and intensive working capital operations over the medium term.

Outlook: Stable

Acuité believes that KBS's outlook will remain 'Stable' over the medium term from its experienced management along with significant improvement in revenues and profitability, and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to the deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 312.59 | 378.08 |
| PAT | Rs. Cr. | 3.81 | 7.83 |
| PAT Margin | (%) | 1.22 | 2.07 |
| Total Debt/Tangible Net Worth | Times | 0.80 | 0.86 |

| | | | |
|----------------|-------|------|------|
| PBDIT/Interest | Times | 1.90 | 2.85 |
|----------------|-------|------|------|

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|---|
| 16-May-2019 | Cash Credit | Long Term | 12.50 | ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable) |
| | Cash Credit | Long Term | 12.00 | ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable) |
| | Cash Credit | Long Term | 17.00 | ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable) |
| | Letter of Credit | Short Term | 2.50 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Letter of Credit | Short Term | 12.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Letter of Credit | Short Term | 12.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Proposed long term facilities | Long Term | 21.00 | ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable) |
| | Proposed bank facilities | Short Term | 21.00 | ACUITE A3 (Upgraded) |
| 22-Feb-2018 | Cash Credit | Long Term | 10.00 | ACUITE BBB- / Stable (Upgraded from ACUITE BB/Stable) |
| | Cash Credit | Long Term | 12.50 | ACUITE BBB- / Stable (Assigned) |
| | Cash Credit | Long Term | 12.00 | ACUITE BBB- / Stable (Assigned) |
| | Letter of Credit | Short Term | 12.00 | ACUITE A3 (Upgraded from ACUITE A4+) |
| | Letter of Credit | Short Term | 2.50 | ACUITE A3 (Assigned) |
| | Letter of Credit | Short Term | 12.00 | ACUITE A3 (Assigned) |
| | Proposed long term | Long Term | 5.00 | ACUITE BBB- / Stable |

| | | | | |
|-------------|--------------------|------------|-------|---|
| | facilities | | | (Upgraded from ACUITE BB/Stable) |
| | Term Loan | Long Term | 7.00 | ACUITE BBB- / Stable (Upgraded from ACUITE BB/Stable) |
| 31-May-2017 | Cash Credit | Long Term | 10.00 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 7.00 | ACUITE BB/ Stable (Assigned) |
| | Proposed long term | Long Term | 5.00 | ACUITE BB/ Stable (Assigned) |
| | Letter of Credit | Short Term | 12.00 | ACUITE A4+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|--------------------------|------------------|----------------|----------------|--|---------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 17.50 (Revised from Rs. 12.50 crores) | ACUITE BBB/ Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 12.00 | ACUITE BBB/ Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 24.00 (Revised from Rs. 17.00 crores) | ACUITE BBB/ Stable (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 14.50 (Revised from Rs. 2.50 crores) | ACUITE A3+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 12.00 | ACUITE A3+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 22.00 (Revised from Rs. 12.00 crores) | ACUITE A3+ (Reaffirmed) |
| Proposed bank facilities | Not Applicable | Not Applicable | Not Applicable | 4.00 (Revised from Rs. 21.00 crores) | ACUITE BBB/ Stable (Reaffirmed) |
| Proposed bank facilities | Not Applicable | Not Applicable | Not Applicable | 4.00 (Revised from Rs. 21.00 crores) | ACUITE A3+ (Reaffirmed) |

Contacts

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| Analytical | Rating Desk |
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About Acuité Ratings & Research:

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