

Press Release
KBS INDUSTRIES PRIVATE LIMITED
February 04, 2022
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	61.50	ACUITE BBB Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	48.50	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	110.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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 has been revised from Stable to '**Negative**'.

Key reason for revision in Outlook

The revision in outlook to 'Negative' reflects the deterioration in the working capital management as reflected by increase in inventory levels and delayed realisation of receivables. The company's revenue on FY 2022 are estimated to remain in the range of Rs.275 – 300 crore, which has sequentially deteriorated from Rs.380 crore in FY19. The incremental working capital over the same period is estimated to sequentially increase by 60 crores in FY2022 as compared to FY19. This has resulted increased reliance on working capital facilities. The cash credit limits have witnessed a peak utilization of 96 per cent, thereby impacting the liquidity. Any further deterioration in working capital management will continue to be a key rating sensitivity factor

About the Company

KBS Industries Private Limited (KBS) was incorporated in 2012, promoted by Mr. Arjun Anand, and Monica Sachdeva is engaged in the business of manufacturing of high quality semi-finished copper and copper alloy products like copper wire rods, ingots etc which are widely used in engineering, electrical and manufacturing industries. The factory is based at Barhi Industrial Area, Haryana and another recently established facility is located at Silvassa. The plants have an installed capacity of 5200 MTPA & 5600 MTPA

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations along with experienced management

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. In the FY2019 the company has expanded the capacity of their manufacturing facilities by the adding a manufacturing unit in Silvassa with an 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.

Improved Operating margins

The company reported an EBITDA margin of around 9.09 per cent for FY21 as compared to 6.27 per cent in FY20. The reason for increased margins being that in FY21 the company completely switched its operations to manufacturing, which although partly affected its top line numbers but also helped achieve better margins. Going forward, company plans to undertake only manufacturing activity while also has some forward integration strategies planned which involves manufacturing of copper wires. However, the same is at a nascent stage.

Weaknesses

Working Capital Intensive Operations

KBSPL's working capital operations are intensive in nature. The company reported significant accumulation of inventory levels in FY2021 resulting in an increase in the inventory holding period to 250 days as on March 31, 2021 from 131 days as on March 31, 2020. The increase in the inventory levels can be attributed partly to the Covid pandemic leading to lowering demands in the market. Further, the inventory levels were purposely increased by the company for the Silvassa plant keeping in view the copper wire production. The wire production process has a long cycle upwards of 2-3 months since the same involves tensile test, conductivity test etc. Also, company had made bulk buying in the previous year to enjoy cost benefit over the raw material pricing however as demands have been affected due to pandemic there has been some inventory left unsold. The debtor collection period of the company also increased and stood at around 90 days in FY2021 as against 41 days in the previous year. However, as per the YTD numbers ended December 2021 the inventory days and debtor collection levels have marginally improved and stood at around 178 days and 81 days respectively. The average bank limit utilization of the company for the last 6 month period ending on 31st December 2021 stood high at around 96%.

Acuité believes that KBSPL's financial 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 company's performance remains vulnerable to cyclicalities in the copper sector as demand for copper depends on the performance of the end user segments such as construction, electrical & engineering industries etc. Moreover, the prices of the same are fluctuating in nature, therefore the operating profit margins of the company is susceptible to raw material price fluctuation

Rating Sensitivities

- Further increase in the outside liabilities affecting the financial risk profile
- Further elongation in the working capital cycle

Material covenants

None

Liquidity Position: Stretched

The company's liquidity is moderately adequate marked by net cash accruals of Rs.5.11 crore in FY2021 against ~2 crore of debt obligations. The interest coverage and DSCR stood at 1.65 times & 1.51 times respectively as on March 31, 2021. Additionally, company has availed long term loans (GECL) to the tune of ~Rs.29 crore in the current FY22. Major reason for availing debt is to reduce and pay off the trade creditors. As on 31st December 2021, the outstanding payables stood at Rs. ~17.5 crore as compared to Rs. 24.48 crore on 31st March 2021. Going forward, the yearly repayment on the debt is expected to be around ~5-6 crore, which may significantly affect the liquidity if sustainable growth in revenues & debt coverage indicators

is not maintained. However, as per YTD numbers ended December 21 the company has achieved revenues to the tune of Rs.223.24 crore maintaining operating margins at around 6.45 per cent. Further, for FY21, the company's working capital operations have been elongated marked by Gross Current Asset (GCA) of 334 days which include an inventory holding of around 250 days in FY2021 as against GCA of 107 days in FY2020. However, again the YTD numbers with regards to the working capital cycle have improved marked by inventory holding of around 178 days. The gearing stood at 1.26 times as on 31st March 2021 as against 1.28 times on 31st March 2020. Further, the promoters have infused USL of around Rs.21 crore into the business. The current ratio stood at 1.38 times as on March 31, 2021 as against 1.24 times as on March 31, 2020. The company maintained unencumbered cash and bank balances of Rs.4.14 crore as on March 31, 2021.

Acuité believes liquidity to remain a key sensitivity factor.

Outlook: Negative

Acuité believes that the KBSIL's credit profile will be impacted because of the significant increase in the outside borrowings. The company increased its long term borrowings to the tune of Rs.29 crore during FY2022. The overall financial risk profile may be adversely impacted in case of further deterioration in revenue and working capital management. Moreover, the operations are working capital intensive marked by GCA of 334 days as on 31st March 2021. The rating may be further downgraded in case of further elongation in the working capital cycle and weak debt coverage indicators impacting the liquidity. Conversely, the outlook may be revised to 'Stable' in case of sustained improvement in the company's scale of operations, working capital cycle, and maintenance of the debt coverage indicators

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	177.81	313.40
PAT	Rs. Cr.	3.32	6.29
PAT Margin	(%)	1.87	2.01
Total Debt/Tangible Net Worth	Times	1.26	1.28
PBDIT/Interest	Times	1.65	2.22

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Aug 2020	Proposed Bank Facility	Short Term	4.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	17.50	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	22.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	4.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	24.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	14.50	ACUITE A3+ (Reaffirmed)
16 May 2019	Letter of Credit	Short Term	12.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	2.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	12.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Short Term	21.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Proposed Bank Facility	Long Term	21.00	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	12.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	12.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
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)
	Term Loan	Long Term	7.00	ACUITE BBB- Stable (Upgraded from ACUITE BB Stable)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB- Stable (Upgraded from ACUITE BB Stable)
	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)
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		

Loan	Term	5.00	ACUITE BB Stable (Assigned)
Letter of Credit	Short Term	12.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE BBB Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.50	ACUITE A3+ Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3+ Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.40	ACUITE BBB Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.30	ACUITE BBB Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.30	ACUITE BBB Negative Reaffirmed Stable to Negative

** CC facilities are Interchangeable with LCs to the tune of Rs.8.70 crore, Rs.6 crore, and Rs.10.80 crore.

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in KanjurMarg, Mumbai.

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