

Press Release

Klenzaids Contamination Controls Private Limited (KCCPL)

22 June, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr
Long Term Rating	SMERA BB/Outlook : Stable
Short Term Rating	SMERA A4+

*Refer Annexure for details

Rating Rationale

SMERA has assigned 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.20.00 crore bank facilities of Klenzaids Contamination Controls Private Limited. The outlook is '**Stable**'.

Klenzaids Contamination Controls Private Limited (KCCPL), incorporated in 1978, is a Mumbai-based company, engaged in the manufacture of clean room equipment, pharmaceutical machinery and accessories.

List of key rating drivers and their detailed description

Strengths

Extensive industry experience of the promoters

The company is led by Mr. Hamish Shahani, Managing Director and CEO since 1991. The other directors, Mr. Ramesh Lala (Head - Marketing and Projects) and Mr. Krishnamurthy Hariharsubramanian (Head - Finance and Accounts) have been associated with the company for more than three decades.

In November 2014, KCCPL and Bosch Packaging Technology (BPT), entered into collaboration for further business expansion. Subsequently, Mr. Shreedhar Anehosur and Mr. Matthias Mueller joined in as Directors. Mr. Shreedhar Anehosur and Mr. Matthias Mueller are actively involved in the business and possess extensive experience in the industry for over a decade.

The long track record of the management has helped the company develop healthy relations with suppliers and reputed customers like Cipla Limited, Cadila Healthcare Limited, Dr. Reddy's Laboratories Limited, GlaxoSmithKline Pharmaceuticals Limited, Glenmark Pharmaceuticals Limited, to name a few.

Further the collaboration with BPT also helped the company expand to new markets and introduce new products.

Moderate financial risk profile

KCCPL has moderate financial risk profile with networth of Rs.22.59 crore as on 31 March, 2017 (Provisional) compared to Rs.18.99 crore as on 31 March, 2016. The gearing stands comfortable at 0.44 times as on 31 March, 2017 (Provisional) as against 0.71 times as on 31 March, 2016.

The TOL/TNW ratio stands moderately high at 2.57 times as on 31 March, 2017 (Provisional) as against 2.63 times as on 31 March, 2016 mainly on account of high creditors.

The interest coverage ratio stands healthy at 8.84 times in FY2017 (Provisional) which improved from 4.53 times in FY2016 mainly on account of improved profitability. The NCA/TD stood comfortable at 0.43 times in FY2017 (Provisional) as against 0.36 times in FY2016.

SMERA believes that the financial risk profile is likely to remain stable in the near to medium term on account of moderate networth and comfortable coverage indicators.

Healthy growth in revenues and profitability

The revenues increased to Rs. 84.71 crore in FY2017 (Provisional) as against Rs. 65.66 crore in FY2016 (increase of ~30 per cent) mainly on account of the healthy order book for pharmaceutical machinery and addition of new streams of revenue such as software services and commission on sale of Bosch machinery. The company has order book worth ~Rs.60.40 crore as on April, 2017 (~0.7 times of the revenue of FY2016-17), thus providing moderate revenue visibility. The operating margins stood healthy at 14.84 per cent and net margins stood at 8.58 per cent in FY2017 (provisional).

Weaknesses

Working capital intensive operations

The Gross Current Asset stood high at 308 days in FY2017 mainly on account of high debtors of 210 days and inventory holding of 103 days. The high debtors are on account of long overdue receivables of ~Rs.13.00 crore pending since FY2013.

However, the working capital is supported by credit extended by suppliers and advances received from customers. Further the average cash credit utilisation stood high at ~96 per cent during October, 2016 to March, 2017.

The company's ability to reduce receivable cycle by timely receipt from overdue debtors would remain the key rating sensitivity.

Margins susceptible to fluctuations in forex rates, prices of raw materials

The margins are susceptible to fluctuations in the prices of steel (raw material). The margins are also exposed to foreign exchange fluctuation risk with ~26 per cent being exported to USA, Germany, Thailand, Lebanon among others. However, the risk is mitigated to a certain extent due to natural hedge on account of imports.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

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

Outlook: Stable

SMERA believes that KCCPL's rated facilities will maintain a stable outlook and benefit over the medium term owing to the experienced management. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while achieving healthy profit margins with prudent working capital management. The outlook may be revised to 'Negative' in case of decline in the revenues or profitability and deterioration in the financial risk profile.

About the Rated Entity

Incorporated in 1978, KCCPL was promoted by Mr. Chandru Shahani. Later in November 2014, KCCPL and Bosch Packaging Technology (BPT) entered into collaboration for further business expansion. Subsequently, Robert Bosch Investment Nederland B.V. signed a joint venture agreement and acquired a 49 per cent stake in the KCCPL's equity with two new directors joining in namely Mr. Shreedhar Anehosur and Mr. Matthias Mueller.

The company is currently managed by Mr. Hamish Shahani (son of Mr. Chandru Shahani) and other directors, Mr. Ramesh Lala, Mr. Shreedhar Anehosur, Mr. Matthias Mueller and Mr. Krishnamurthy Hariharsubramanian.

The company is engaged in the manufacture of aseptic devices, bio-clean devices and containment equipments and solutions. The manufacturing division contributes more than 85 per cent of the total sales revenue. The company also undertakes turnkey 'design-build' projects for clean room facilities and laboratories.

The company also provides other services including commissioning and repeat annual maintenance services for all projects and products, sales and servicing (as agents) of imported Bosch systems for the Indian pharmaceutical industry and software services for Bosch Germany among others. The manufacturing facilities are located at Umbergaon, Gujarat.

For FY2016-17 (Provisional), KCCPL reported profit after tax (PAT) of Rs.7.27 crore on operating income of Rs.84.71 crore, as compared to PAT of Rs.4.39 crore on operating income of Rs.65.66 crore in FY2015-16.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	12.00	SMERA BB/Stable (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	6.00	SMERA A4+ (Assigned)	-	-	-	-	-	-
Letter of Credit	ST	2.00	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
Cash Credit	NA	NA	NA	12.00	SMERA BB/Stable (Assigned)
Bank Guarantee	NA	NA	NA	6.00	SMERA A4+ (Assigned)
Letter of Credit	NA	NA	NA	2.00	SMERA A4+ (Assigned)

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

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ABOUT SMERA

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