

Press Release

Klenzaids Contamination Controls Private Limited

November 22, 2018



Rating Upgraded

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 20.00 Cr. |
| Long Term Rating | ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BB/Stable) |
| Short Term Rating | ACUITE A3+ (Upgraded from ACUITE A4+) |

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from **ACUITE BB** (**read as ACUITE double B**) and short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from **ACUITE A4+** (**read as ACUITE A four plus**) to the bank facilities of the Rs. 20.00 crore of Klenzaids Contamination Controls Private Limited (KCCPL). The outlook is '**Stable**'.

The rating revision is on account of continuous improvement in the company's financial risk profile, consistent revenue growth demonstrated by KCCPL post joint venture with Robert Bosch Investment Netherland B.V. (an investment company of German based Robert Bosch GmbH). KCCPL has entered into a joint venture with Robert Bosch Investment Netherland B.V in November 2014. It holds 49 percent shares in KCCPL as on 31 March, 2018. This collaboration has reflected sustained revenue growth in the form of expansion to new markets, introduction to new products and providing Software Services for Bosch Germany, which will help KCCPL maintain long term relations with Bosch Group. Acuité draws comfort from the support of Bosch Packaging Technology by way of shareholding, common management, orders from Bosch Group and other reputed clientele while maintaining its healthy profitability margins.

The Mumbai based KCCPL, incorporated in 1978, is engaged in the manufacture of clean room equipment, pharmaceutical machinery and accessories. In November 2014, Robert Bosch Investment Netherland B.V. (an investment company of German based Robert Bosch GmbH) had invested in KCCPL by holding 49 percent shares.

Analytical Approach

Acuité has considered the standalone financial and business risk profiles of KCCPL to arrive at the ratings while factoring in the support from Robert Bosch Investment Netherland B.V. by the way of shareholding, common management and continuous orders received from Bosch Group.

Key Rating Drivers

Strengths

- Extensive industry experience of the promoters**

The company is led by Mr. Hamish Shahani (Managing Director and CEO) since 1991. The other Directors include Mr. Ramesh Lala (Head-Marketing and Projects) and Mr. Krishnamurthy Hariharan (Head-Finance and Accounts) who are associated with the company for more than three decades. In November 2014, KCCPL and BPT entered into collaboration for further business expansion. Subsequently, Mr. Shreedhar Anehosur and Mr. Stefan Tolle joined in as Directors. Mr. Shreedhar Anehosur is actively involved in the business and possesses experience of over a decade. The long track record of the management has helped the company develop healthy relations with suppliers and reputed customers such as Cipla Limited, Cadila Healthcare Limited, Dr. Reddy's Laboratories Limited, Intas Pharmaceuticals Limited - SEZ, MSN Laboratories Private Limited to name a few. Further, the collaboration with BPT also helped the company expand to new markets and introduce new products.

- **Consistent growth in revenue as well as profitability margins**

The revenues stood at Rs.103.85 crore in FY2018 as against Rs.83.97 crore in FY2017. Further, the revenues stood at Rs.65.55 crore in FY2016. The continuous increase in revenues is mainly on account of the healthy order book from pharmaceutical companies and addition of new revenue stream such as software services and sale of Bosch machinery on which the company receives commission. The operating margins of the company stood healthy at 23.32 percent in FY2018 as against 16.90 percent in the previous year. The net margins stood at 13.21 percent in FY2018 as against 8.45 percent in FY2017. Acuité believes that the revenues of the company are expected to increase going forward as the company receives continuous orders from various industries and also support extended by Bosch Group.

- **Healthy financial risk profile**

KCCPL has healthy financial risk profile with tangible net worth of Rs.34.34 crore as on 31 March, 2018 when compared to Rs.25.82 crore as on 31 March, 2017. The gearing (debt-equity) stood comfortable at 0.27 times as on March 31, 2018 as against 0.46 times as on March 31, 2017. The company only avails working capital facility from bank but does not avail any long term loan. Total outside Liabilities/Tangible Net Worth (TOL/TNW) ratio improved at 1.35 times as on March 31, 2018 as against 2.14 times as on March 31, 2017. Interest Coverage Ratio (ICR) stood healthy at 18.96 times in FY2018 which has improved from 7.48 times in FY2017 mainly on account of increase in profitability of the company and low debt availed by the company. Net cash accrual/Total debt (NCA/TD) stood comfortable at 1.66 times in FY2018 as against 0.69 times in FY2017. Acuité believes that the financial risk profile is likely to remain healthy in near to medium term on account of comfortable net worth, coverage indicators, healthy net cash accruals and absence of any major debt funded capex.

Weaknesses

- **Working capital intensive operations**

The company's operations are working capital intensive marked by Gross Current Asset (GCA) days of 249 in FY2018 as against 314 in the previous year. This is mainly on account of high debtors of ~222 days for FY2018 as against 235 days in previous year. Out of the total debtor of Rs.50.55 crore as on 31 March, 2018, ~Rs.13.00 crore is outstanding since 2013. However, the working capital operations are supported by credit extended by suppliers and advances received from customers of around 10-15 percent. Further, the average cash credit utilisation stood at around 70 percent for last six months ending October 2018.

- **Margins susceptible to raw material and foreign exchange fluctuation risk**

The company's major raw material being steel, its margins are susceptible to raw material price fluctuations. Further, with around 26 percent exports to USA, Germany, Thailand, Lebanon, Iran, Saudi Arabia and Turkey and imports of around 10-15 percent, the company's margins are susceptible to foreign exchange fluctuation risk, though it is partially covered with natural hedge.

Outlook: Stable

Acuité believes that KCCPL will continue to maintain a 'Stable' outlook and benefit over the medium term owing to the experienced management and support from Bosch Group. The outlook may be revised to 'Positive' in case the company generates revenue and profitability with prudent working capital management and sustains the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected margins and higher working capital requirement.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 103.85 | 83.97 | 65.66 |
| EBITDA | Rs. Cr. | 24.22 | 14.19 | 9.59 |
| PAT | Rs. Cr. | 13.72 | 7.10 | 4.39 |
| EBITDA Margin | (%) | 23.32 | 16.90 | 14.60 |
| PAT Margin | (%) | 13.21 | 8.45 | 6.68 |
| ROCE | (%) | 57.88 | 38.62 | 28.78 |
| Total Debt/Tangible Net Worth | Times | 0.27 | 0.46 | 0.71 |
| PBDIT/Interest | Times | 18.96 | 7.47 | 4.57 |
| Total Debt/PBDIT | Times | 0.38 | 0.83 | 1.39 |
| Gross Current Assets (Days) | Days | 249 | 314 | 342 |

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|-------------------------------|
| 01-Aug-2018 | Cash Credit | Long Term | 12.00 | ACUITE BB (Indicative) |
| | Bank Guarantee | Short Term | 6.00 | ACUITE A4+ (Indicative) |
| | Letter of Credit | Short Term | 2.00 | ACUITE A4+ (Indicative) |
| 22-Jun-2017 | Cash Credit | Long Term | 12.00 | ACUITE BB / Stable (Assigned) |
| | Bank Guarantee | Short Term | 6.00 | ACUITE A4+ (Assigned) |
| | Letter of Credit | Short Term | 2.00 | 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 | 12.00 | ACUITE BBB/Stable (Upgraded from ACUITE BB/Stable) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 6.00 | ACUITE A3+ (Upgraded from ACUITE A4+) |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A3+ (Upgraded from ACUITE A4+) |

Contacts

| Analytical | Rating Desk |
|---|---|
| Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in |
| Disha Parmar Analyst - Rating Operations Tel: 02249294064 disha.parmar@acuiteratings.in | |

About Acuité Ratings & Research:

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