

Press Release

KLENZAIDS CONTAMINATION CONTROLS PRIVATE LIMITED

December 11, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.20.00 crore bank facilities of KLENZAIDS CONTAMINATION CONTROLS PRIVATE LIMITED (KCC). The outlook is '**Stable**'.

The Mumbai based KCCPL, incorporated in 1978, is engaged in the manufacturing 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

Acuite has considered the standalone financial and business risk profile of KCC to arrive at the rating.

Key Rating Drivers

Strengths

• Extensive industry experience of 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 Hariharasubramanian (Head-Finance and Accounts) who are 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. Stefan Tolle joined in as Directors. Mr. Shreedhar Anehosur is actively involved in the business and has 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.

Acuite believes that the company will continue to benefit from its experienced management and established relationships with customers.

• Healthy profitability

The operating margins of the company stood healthy at 26.32 percent in FY2019 as against 23.32 percent in the previous year. This is majorly due to efficient utilization and purchase of raw materials. The net margins stood at 17.41 percent in FY2019 as against 13.21 percent in FY2018.

Acuite believes, going forward, maintaining the profitability equivalent to the current levels will be key rating sensitivity.

• **Healthy financial risk profile**

KCCPL has healthy financial risk profile with tangible net worth of Rs.42.46 crore as on 31 March, 2019 as against Rs.34.34 crore as on 31 March, 2018. The gearing (debt-equity) stood comfortable at 0.14 times as on March 31, 2019 as against 0.27 times as on March 31, 2018. 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 0.82 times as on March 31, 2019 as against 1.35 times as on March 31, 2018. Interest Coverage Ratio (ICR) stood healthy at 29.17 times in FY2019 as against 18.96 times in FY2018 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 3.46 times in FY2019 as against 1.66 times in FY2018.

Acuite 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

• **Moderate revenues growth**

The revenues increased marginally to Rs.108.50 crore in FY2019 from Rs.103.85 crore in FY2018. However, it has not achieved Acuite's expectations. This is majorly because few orders were not picked up by the customers during the end of the FY2019. Further, revenues stood at around Rs.48.50 crore for the period April, 2019 to October, 2019.

Acuite believes it would be very critical for the company to scale up its business operations.

• **Working capital intensive operations**

The company's operations are working capital intensive marked by Gross Current Asset (GCA) days of 184 in FY2019 as against 202 in the previous year. This is mainly on account of high debtors of 154 days for FY2019 as against 163 days in previous year. Debtor days are higher due to long gestation period. Normally it takes 1~16 weeks for manufacturing process depending upon the product. The total receivables stood at Rs.48.67 crore as on 31 March, 2019 and Rs.50.55 crore as on 31 March, 2018. However, Acuite has considered ~Rs.13.31 crore receivables as non-current asset as they are pertaining to FY2013. Hence, the adjusted debtors stood at Rs.35.36 crore as on 31 March, 2019 as against Rs.37.24 crore as on 31 March, 2018. Further, the average cash credit utilisation stood at around 75~80 percent for last six months ending October, 2019.

Acuite believes, going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key ratingsensitivity.

• **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.

Liquidity Position: Healthy

KCCPL has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.20.16 in FY2019, Rs.14.62 crore in FY2018 and Rs.7.93 crore in FY2017, while its maturing debt obligation was Rs.0.08 crore in FY2019. The company's working capital operations are intensive as marked by gross current asset (GCA) days of 184 in FY 2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilised at ~75 to 80 percent during the last 6 months' period ended October, 2019. The company maintains unencumbered cash and bank balances of Rs.0.05 crore as on March 31, 2019. The current ratio of the company stood at 1.59 times as on March 31, 2019.

Acuite believes that the liquidity position of the company will remain healthy in the near term at the back of healthy net cash accruals and absence of any debt funded capex.

Outlook: Stable

Acuite 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Crore	108.50	103.85
Profit after tax (PAT)	Rs. Crore	18.89	13.72
PAT margin	%	17.41	13.21
Total debt / Tangible Net worth	Times	0.14	0.27
PBDIT / Interest	Times	29.17	18.96

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

None.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
22-Nov-2018	Cash Credit	Long Term	12.00	ACUITE BBB/Stable (Upgraded from ACUITE BB)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Upgraded from ACUITE A4+)
	Bank guarantee	Short Term	6.00	ACUITE A3+ (Upgraded from ACUITE A4+)
01-Aug-2018	Cash Credit	Long Term	12.00	ACUITE BB (Indicative)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Indicative)
	Bank guarantee	Short Term	6.00	ACUITE A4+ (Indicative)
22-June-2017	Cash Credit	Long Term	12.00	ACUITE BB/Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Assigned)
	Bank guarantee	Short Term	6.00	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 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3+ (Reaffirmed)

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