

## Press Release

### Klenzaids Contamination Controls Private Limited

July 06, 2020

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 26.00 Cr. (Enhanced from Rs.20.00 crore)
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable
<b>Short Term Rating</b>	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.26.00 crore bank facilities of Klenzaids Contamination Controls Private Limited (KCCPL). The outlook is '**Stable**'.

Incorporated in 1978, Klenzaids Contamination Controls Private Limited (KCCPL) is engaged in the manufacturing of benchmark Aseptic, Bioclean and Containment equipment, which are elemental to plants established by the pharmaceutical, biological, life science, healthcare, electrical, space and defense industries. It also Designs & Builds turnkey labs & facilities for these industries, universities and public health establishments. Klenzaids is a joint venture member of Syntegon Technologies GmbH (formerly Robert Bosch Packaging Technology GmbH).

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

##### • Extensive industry experience of promoters

KCCPL is led by its Managing Director & CEO, Mr Hamish Shahani along with other directors which include Mr. Shreedhar Anehosur – Chief Operating Officer, Mr. Ramesh Lala – Head Marketing & Projects, Mr. H Krishnamurthy – Head Finance & Accounts and Mr. Stefan Tolle, representing Syntegon and also providing technical expertise.

The company's long track record of more than 4 decades has helped in developing and maintaining healthy relations with its customers like Bharat Biotech, Cipla, Cadila Healthcare, Dr. Reddy's Laboratories, Glenmark, Intas Pharmaceuticals, Sun Pharma, Sanofi & Serum Institute of India Ltd to name a few. It has also maintained a long-standing relationship with its vendors and suppliers. Acuite believes that the company would continue to benefit from the experienced management and well-established relations with its customers.

##### • Healthy financial risk profile

Klenzaids has healthy financial risk profile with a tangible net worth of Rs 40.83 crore as on 31 March, 2020 (provisional) as against Rs 42.46 crore as on 31 March 2019. The Tangible net worth as on 31 March, 2020 is after taking into consideration the dividend paid by the company in October, 2019. The gearing debt equity ratio stood comfortable at 0.28 times as on 31 March, 2020 (Provisional) as against 0.14 times as on 31 March, 2019. Total debt as on 31 March, 2020 is Rs.11.25 crore which consists of long term borrowings of Rs.0.28 crore and short term borrowing of Rs.10.96 crore. Total Outside Liabilities/Tangible Net worth (TOL/TNW) ratio stood at 1.17 times as on 31 March, 2020 (Provisional) as against 0.82 times as on 31 March, 2019. Interest Coverage ratio (ICR) though reduced still stood healthy at 17.31 times in FY2020 (Provisional) as against 29.17 times in FY2019. Net Cash accruals/Total Debt stood at 1.29 times in FY2020 (Provisional) as against 3.46 times in FY 2019.

Acuite believes that the financial risk 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 and reduction in profitability

The revenues reduced marginally to Rs 104.52 crore in FY2020 (Provisional) from Rs 108.50 crore in FY2019. This is majorly because of the inability to dispatch equipment to customers during the month of March 2020 due to Covid19 and the resultant nationwide lockdown. The revenues over the past few years have had a steady blend of Domestic sales, Exports, Revenues from Software Services, Annual Maintenance Contracts and Commission from the sale of machines and spares. The Operating margin despite a reduction still stood healthy at 19.62 percent in FY2020 (Provisional) as against 26.32 percent in the previous year. The Net margins stood at 12.73 per cent in FY2020 (Provisional) as against 17.41 per cent in FY2019. This is majorly because expenses related to material and other direct manufacturing costs in respect of certain jobs were booked in FY2020, but did not get converted into actual sales due to Covid19 scenario.

Acuite believes that the scale of operations would improve in the medium term on the back of a healthy order book of around Rs 78.00 crore, which is expected to be executed in FY2021.

### • Working capital intensive operations

The company's operations are working capital intensive marked by Gross Current Asset (GCA) days 234 in FY2020 (Provisional) as against 184 days in the previous year. This is on account high debtors of 154 days as on 31 March 2020 (Provisional) as against 119 days as on 31 March 2019. Inventory days stood at 81 as on 31 March 2020 (Provisional) as against 71 as on 31 March 2019. Further, the average cash credit utilization stood at around 70 to 75 percent for the last six months ending May, 2020.

Acuite believes that the working capital operations will remain intensive in nature.

### • 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. However, since the purchase of steel is spread over a period of time, the average pricing does help. Further, the company's exports, including deemed exports, accounted for 43 per cent of its provisional revenues for FY2020. The exports are mainly to countries like USA, Germany, China, MENA countries and other Asian regions, hence having an earning mix of Dollars and Euros. It has imports around 10 to 15 per cent. Of its raw material. Due to these transactions, the company's margins are susceptible to foreign exchange fluctuation, though it partially gets covered by a natural hedge.

## Liquidity Position: Strong

KCCPL has strong liquidity, marked by strong net cash accruals for its maturing debt obligations. The company generated cash accruals of Rs 14.56 crore (Provisional) in FY2020, Rs 20.16 crore in FY2019 and Rs 14.62 crore in FY2018. Its maturing debt obligation in FY2020 was Rs 0.08 crore (Provisional). The company's working capital operations are intensive as marked by GCA of 234 days in FY2020. Further, the reliance on working capital borrowing is moderate; the cash credit limit in the company remains utilized at around 70 to 75 percent during the last 6 months period May 2020. The company maintains unencumbered cash and bank balances of Rs 0.04 crore as on 31 March 2020 (Provisional). The current ratio of the company stood at 1.39 times as on 31 March 2020 (Provisional).

Acuite believes that the liquidity position of the company will remain strong in the near term on 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 the Syntegon group. The Outlook may be revised to "Positive" in case the company generates revenues 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.

## Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant changes in financial risk profile and working capital operations of the firm.

## Material Covenants

None

### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Crore	104.52	108.50
Profit after tax (PAT)	Rs. Crore	13.30	18.89
PAT margin	%	12.73	17.41
Total debt / Tangible Net worth	Times	0.28	0.14
PBDIT / Interest	Times	17.31	29.17

### 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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Dec-2019	Cash Credit	Long Term	12.00	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Bank guarantee	Short Term	6.00	ACUITE A3+ (Reaffirmed)
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)

### \*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	15.00	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	9.00	ACUITE A3+ (Reaffirmed)

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### About Acuité Ratings & Research:

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