

## Press Release

Klenzaid's Contamination Controls Private Limited

September 30, 2022



### Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.60	-	ACUITE A2+   Assigned
Bank Loan Ratings	11.00	-	ACUITE A2+   Upgraded
Bank Loan Ratings	15.00	ACUITE A-   Stable   Upgraded	-
Bank Loan Ratings	3.40	ACUITE A-   Stable   Assigned	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	30.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has upgraded its long term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and its short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.26.00 crore bank facilities of Klenzaid's Contamination Controls Private Limited (KCCPL). The outlook is '**Stable**'.

Also, Acuite has assigned its long term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) and its short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.4.00 crore bank facilities of Klenzaid's Contamination Controls Private Limited (KCCPL). The outlook is '**Stable**'.

### Rationale for Rating

The upgrade in the rating reflects a substantial improvement in the overall business and financial risk profile of the company. The improvement in the business risk profile is reflected through the increased scale of operation in FY2022 as compared to the preceding years due to healthy execution of its order book in FY 2022. The company has recorded an operating income, which stood at Rs. 171.03 crore in FY2022 as against Rs.119.30 crore in FY2021 and Rs.106.11 crore in FY2020. The growth in revenue is expected to be sustained in medium term backed by current executable order book position of Rs.205.93 crore. Also, the financial risk profile of the company stood healthy marked by healthy net worth, low gearing and healthy debt protection metrics due to sustenance of healthy profitability margin. However, the ratings are constrained by margins susceptible to raw material and foreign exchange fluctuation risk, intense working capital operations.

### About the Company

Incorporated in 1978, Klenzaid's Contamination Controls Private Limited (KCCPL) is a Mumbai based company 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. The company is currently managed by Mr Hamish Chandru Shahani along with other directors which include Mr. Krishnamurthy Hariharsubramanian, Mr. Shreedhar Anehosur and Mr. Jerome Andreas Freissmuth. The company is a joint venture member of Syntegon Technologies GmbH (formerly Robert Bosch Packaging Technology GmbH).

### **Analytical Approach**

Acuité has considered the standalone financial and business risk profile of KCCPL to arrive at this rating

### **Key Rating Drivers**

#### **Strengths**

##### **>Experienced management and established track record of operation**

KCCPL was established in 1978. The company is led by its Managing Director & CEO, Mr Hamish Shahani along with other directors which include Mr. Shreedhar Anehosur – Chief Operating Officer, Mr. H Krishnamurthy – Head Finance & Accounts and Mr. Jerome Freissmuth, representing Syntegon and also providing technical expertise. The company's long track record of operation of more than four decades has helped in developing and maintaining healthy relations with its customers like Amneal group, Bharat Biotech, Cipla, Cadila Healthcare, Dr. Reddy's Laboratories, Glenmark, Intas Pharmaceuticals, Sun Pharma, Haffkine Institute, Sanofi & Serum Institute of India Ltd to name a few. It has also maintained a long-standing relationship with its vendors and suppliers.

Acuité believes that the company will continue to benefit from the management's experience and its association with reputed clients to sustain its business risk profile in the near to medium term.

##### **>Healthy Financial Risk Profile**

The financial risk profile of the company stood healthy marked by healthy net worth, low gearing, and healthy debt protection metrics. The tangible net worth stood at Rs.71.38 crore as on 31 March 2022 as against Rs.52.68 crore as on 31 March, 2021 and Rs.41.00 crore as on 31 March, 2020. The total debt of the company stood at Rs.19.19 crore includes Rs.2.42 crore of long-term debt, Rs.16.41 crore of short-term debt, and Rs.0.36 crore of CPLTD as on 31 March, 2022. The gearing (debt-equity) stood at 0.27 times as on 31 March 2022 as compared to 0.16 times as on 31 March, 2021 and 0.34 times as on 31 March, 2020. Interest Coverage Ratio stood at 41.10 times for FY2022 as against 24.60 times for FY2021 and 16.93 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 28.77 times in FY2022 as against 17.46 times in FY2021 and 12.36 times in FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.06 times as on 31 March, 2022 as against 1.09 times as on 31 March, 2021 and 1.17 times as on 31 March, 2020. Net Cash Accruals to Total Debt (NCA/TD) stood at 1.73 times for FY2022 as against 2.58 times for FY2021 and 1.08 times for FY2020.

Acuité believes that the financial risk profile of the company is expected to remain at the same level over the medium term.

##### **>Improving revenue with healthy profitability margin**

The company has recorded an operating income of Rs.171.03 crore in FY2022 as against Rs.119.30 crore in FY2021 and Rs.106.11 crore in FY2020. The revenue of the firm has increased by 43.36 percent and is growing at a compounded annual growth rate of 17.06 percent since 2020. Also, the profitability margin of the company stood healthy marked by EBIDTA margin of stood at 26.49 percent in FY2022 as against 24.88 percent in FY2021 and 19.47 percent in FY2020. Also, PAT margins stood at 18.82 percent in FY2022 as against 17.17 percent in FY2021 and 12.82 percent in FY2020. The company also has a current executable order book position of Rs.205.93 crore showing revenue visibility in the medium term.

## Weaknesses

### >Intensive Working Capital operations

The working capital management of the company is intensive marked by GCA days of 294 days in FY2022 as against 310 days in FY2021 and 272 days in FY2020. The debtor days stood at 153 days in FY2022 as against 189 days in FY2021 and 187 days in FY2020. The payment cycle for debtors is: 15%-20% advance payment, 60%-70% is after delivery of the machinery and remaining 10%-15% is after 1 year. In this the major part of payment is pending with the government agency (HSCC Limited) for a project executed at National Institute of Virology, Pune that comes around Rs.11 crores which would be recovered by the end of FY2022-23. However, the average credit period allowed to customers is of 30-90 days. The creditor days stood at 135 days in FY2022 as against 196 days in FY2021 and 163 days in FY2020. The average credit period allowed by suppliers is around 30-90 days. Also, the inventory days stood at 67 days in FY2022 as against 100 days in FY2021 and 79 days in FY2020. Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

### >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 accounted for 52.26 per cent of its revenues for FY2022. 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. Due to these transactions, the company's margins are susceptible to foreign exchange fluctuation, though it gets covered by natural hedge.

### Rating Sensitivities

- Significant improvement in the scale of operations.
- Any elongation of the working capital cycle leading to further deterioration in financial risk profile.

### Material covenants

None.

### Liquidity Position: Adequate

The company's liquidity position is adequate marked by sufficient net cash accruals against its maturing debt obligations. The company has net cash accruals in the range of Rs.14.86-Rs.33.27 Crore from FY 2020- 2022 against its maturing debt obligations in the range of Rs.0.08-Rs.0.36 crore in the same tenure. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.33.24-36.79 crores against the maturing repayment obligations of around Rs.0.34 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 294 days in FY2022 as against 310 days in FY2021 and 272 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.31.58 crore as on March 31, 2022. The current ratio stands at 1.89 times as on March 31, 2022. The average bank limit utilization for the past 06 months ending June 2022 is ~ 78.36 percent. The average BG utilization as on 16<sup>th</sup> September 2022 is 100% utilized and an additional BG is taken for the Haffkine project of Rs.9.78 crores against 100% cash margin. Acuité believes that the liquidity of KCCPL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations

### Outlook: Stable

Acuité believes that the company will maintain a 'stable' outlook over the near to medium term owing to its experienced management and established market position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while improving profitability margins, improvement in capital structure and working capital

management. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenue, profit margins or deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital or capex requirements.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	171.03	119.30
PAT	Rs. Cr.	32.19	20.48
PAT Margin	(%)	18.82	17.17
Total Debt/Tangible Net Worth	Times	0.27	0.16
PBDIT/Interest	Times	41.10	24.60

### 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>
- 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
30 Sep 2021	Bank Guarantee	Short Term	9.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Letter of Credit	Short Term	2.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Cash Credit	Long Term	15.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
06 Jul 2020	Cash Credit	Long Term	15.00	ACUITE BBB   Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A3+ (Reaffirmed)
11 Dec 2019	Cash Credit	Long Term	12.00	ACUITE BBB (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	6.00	ACUITE A3+ (Reaffirmed)
22 Nov 2018	Letter of Credit	Short Term	2.00	ACUITE A3+ (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	12.00	ACUITE BBB   Stable (Upgraded from ACUITE BB )

	Bank Guarantee	Short Term	6.00	ACUITE A3+ (Upgraded from ACUITE A4+)
01 Aug 2018	Cash Credit	Long Term	12.00	ACUITE BB (Issuer not co-operating*)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Issuer not co-operating*)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A2+   Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-   Stable   Upgraded
State Bank of India	Not Applicable	Derivative Exposure	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A2+   Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+   Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.95	ACUITE A-   Stable   Assigned
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.45	ACUITE A-   Stable   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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