

Press Release

Shri Ked Insulation Private Limited (SKIPL)

25 September, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.10.00 Cr
Long Term Rating	SMERA B+/Stable (Assigned)
Short Term Rating	SMERA A4

**Refer Annexure for details*

Rating Rationale

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SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) to the abovementioned bank facilities of Shri Ked Insulation Private Limited (SKIPL). The outlook is '**Stable**'.

Shri Ked Insulation Private Limited (SKIPL) was incorporated in 2007 by Mr. Manoj Kedia and Mr. Krishan Kumar Kedia. The company is engaged in the manufacturing of copper and aluminium enamelled winding wires at Alwar, Rajasthan. The key raw material - copper and aluminium wire (9.50 mm) rods are sourced from government entities and dealers of NALCO. The company has installed capacity of 120 tonnes per month and sells the aforementioned to OEMs of transformers, motors, television etc.

List of key rating drivers and their detailed description:

Strengths:

Experienced management:

The Directors, Mr. Manoj Kedia and Mr. Krishan Kumar Kedia have extensive experience of over two decades in the company's line of business. The experience has helped establish comfortable relationships with customers and suppliers.

Moderate financial risk profile:

The financial risk profile is moderate marked by moderate network, comfortable gearing and moderate coverage indicators. The network stood at Rs.4.78 crore (includes unsecured loan from directors of Rs.2.18 crore) as on 31 March, 2017 (Provisional) as against Rs.4.40 crore (includes unsecured loan from directors of Rs.2.16 crore) as on 31 March, 2016. SMERA has treated the unsecured loan as quasi equity as the amount is subordinated to bank debt. The company reported comfortable gearing of 1.01 times as on 31 March, 2017 against 0.95 times in the previous year. The gearing of 1.01 times is due to network of Rs.4.78 crore against the total debt of Rs.4.81 crore (includes long term loan of Rs.0.10 crore, and short term working capital of Rs.4.70 crore) as on 31 March, 2017 (Provisional). Moreover, the interest coverage ratio stood moderate at 1.85 times and net cash accrual to total debt (NCA/TD) at 0.13 times in FY2016-17 (Provisional). The debt service coverage ratio (DSCR) stood at 1.72 times in FY2016-17 (Provisional). SMERA believes that any decline or non-improvement in debt protection metrics

or/and increase in debt to equity ratio on account of large debt funded capex would be the key credit monitoring factor.

Moderate working capital cycle:

The working capital cycle is marked by gross current asset (GCA) of 134 days in FY2016-17 (Provisional) compared to 108 days in FY2015-16. The modest GCA days are on account of low inventory days of 28 in FY2016-17 (Provisional) as against 23 in FY2015-16. Further, the debtor days stood at 88 days in FY2016-17 (Provisional) as against 70 days in FY2015-16. The company provides average credit period of three months to its customers.

Weaknesses:**Modest scale of operations:**

The scale of operations is modest with operating income of Rs.29.14 crore in FY2016-17 (Provisional) compared to Rs.25.46 crore in FY2015-16. SMERA believes that the ability of the company to increase scale of operations while maintaining profitability margins shall remain a key credit monitorable.

Competitive and fragmented nature of industry:

The wire and cable industry is highly competitive with multiple players coupled with low entry barrier resulting in intense competition from both, the organised as well as unorganised players.

Exposure to fluctuations in metal prices:

Aluminium and copper rods - the main raw material required for manufacturing of wires is exposed to fluctuations in prices which can adversely impact the profitability profile of the company.

Analytical approach: SMERA has considered the standalone business and financial risk profile of SKIPL.

Applicable Criteria

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

Outlook: Stable

SMERA believes that the company will maintain a Stable outlook on the back of the management's extensive experience in the wire manufacturing business. The outlook may be revised to 'Positive' in case of sustained increase in revenues and accruals while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in capital structure resulting in deterioration of the financial risk profile.

About the Rated Entity

In FY2016-17 (Provisional) the company achieved operating income of Rs.29.14 crore with Profit After Tax (PAT) of 0.36 crore compared to operating income of Rs. 25.46 crore with PAT of 0.32 crore a year earlier. The networth stood at Rs.4.78 crore as on 31 March, 2017 (Provisional) as against Rs.4.40 crore a year earlier.

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

Any other information: None

Rating History for the last three years:

Not Applicable

***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	N.A	N.A	N.A	Rs. 3.00	SMERA B+/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A	Rs. 3.00	SMERA A4 (Assigned)
Letter of Guarantee	N.A	N.A	N.A	Rs. 4.00	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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