

Press Release

Khandelwal Irrigation Private Limited

February 25, 2020

Rating Upgraded & Assigned



Total Bank Facilities Rated*	Rs. 13.93 Cr. (Enhanced from Rs. 11.85 crore)
Long Term Rating	ACUITE BB/ Outlook: Stable (Upgraded and Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.13.92 crore bank facilities of KHANDELWAL IRRIGATION PRIVATE LIMITED (KIPL).

Further, Acuite has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs. 0.01 crore bank facilities of KIPL. The outlook is '**Stable**'.

The rating upgrade takes into account the improvement in the business and financial risk profile of the company. The revenues of the company stood at Rs.35.05 crore for FY2019 as against Rs.28.16 crore for FY2018 registering a growth of ~24 per cent. Further, the company has booked revenue of Rs. 42.24 crore for 10MFY2020. Also, there is a significant improvement in the working capital operations as reflected by gross current asset (GCA) of 171 days in FY19 as compared to 231 days in FY18. The rating continues to draw comfort from the long standing experience of the management.

Rajasthan-based Khandelwal Irrigation Private Limited was incorporated in 1994. The current directors of the company are Mr. Ghan Shyam Das Gupta, Mr. Pradeep Kumar Gupta, Mr. Rakesh Kumar Gupta and Mr. Rajeev Kumar Gupta. The company is engaged in the manufacturing of pipes used in drip irrigation and sprinkler systems.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KIPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The promoters of the company; Mr. Ghan Shyam Das Gupta, Mr. Pradeep Kumar Gupta, Mr. Rakesh Kumar Gupta and Mr. Rajeev Kumar Gupta have amassed experience of more than three decades in the aforementioned line of business. The established track record of operations and experience of the management have helped the company to develop healthy relationships with its customers and suppliers.

Acuite believes that the company will continue to benefit from the promoters' established presence in the industry and its improving business risk profile over the medium term.

Weaknesses

• Average financial risk profile

The company has average financial risk profile marked by modest net worth, high gearing and average debt protection metrics. The net worth stood at Rs.6.00 crore as on 31 March, 2019 as against Rs.5.38 crore on 31 March, 2018. The increase in the net worth was mainly due to steady accretion to reserves and infusion of capital by the promoters. The company has followed an aggressive financial policy in the past; the same is reflected through its gearing levels of 1.64 times as on March 31, 2018. The gearing deteriorated to 1.98 times as on March 31, 2019. The total debt of Rs.11.88 crore as on 31 March, 2019 consisted of long

term debt of Rs.1.82 crore and working capital requirement of Rs.10.06 crore. Total outside liabilities to tangible net worth (TOL/TNW) stood at 2.65 times as on 31 March 2019 as against 3.71 times as on 31 March 2018.

Acuite believes that the financial risk profile of the company is likely to remain average over the medium term, on account of high gearing and average debt protection metrics.

• Working capital intensive nature of operations

Operations of the company are working capital intensive marked by gross current assets (GCA) of 171 days in FY2019 as compared to 231 days in FY2018. This is on account of debtor collection period of 73 days in FY2019 as against 136 days in FY2018 and inventory holding period of 93 days in FY2019 as well as in FY2018. Average working capital utilization for past six months ended January 2020 stood at ~96 percent.

Acuite believes that the working capital operations of the company will continue to remain intensive over the medium term on account of elongated debtor collection period.

Liquidity position: Stretched

The company has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.39 crore for FY2019, with debt repayment obligations of Rs.0.50 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.0.75 crore to Rs.1.10 crore during FY2020-22 against debt repayment obligations of Rs.0.32-Rs.0.50 crore every year in the same period. The company's working capital operations are intensive, marked by GCA of 171 days for FY2019. The average bank limit utilization over the past six months ended January 2020 remained around ~96 percent. The current ratio stood at 1.15 times as on 31 March, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accruals against major debt repayments over the medium term.

Rating Sensitivities:

- Substantial improvement in profitability leading to overall improvement in financial risk profile.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	35.05	28.16
PAT	Rs. Cr.	0.16	0.11
PAT Margin	(%)	0.44	0.40
Total Debt/Tangible Net Worth	Times	1.98	1.64
PBDIT/Interest	Times	1.34	1.34

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

Not Applicable

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
18-Mar-2019	Cash Credit	Long term	8.00	ACUITE BB-/Stable (Reaffirmed)
	Term Loan	Long term	1.60	ACUITE BB-/Stable (Reaffirmed)
	Term Loan	Long term	0.75	ACUITE BB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	1.50	ACUITE A4+ (Reaffirmed)
20-Feb-2018	Cash Credit	Long term	8.00	ACUITE BB-/Stable (Assigned)
	Term Loan	Long term	1.60	ACUITE BB-/Stable (Assigned)
	Term Loan	Long term	0.75	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short Term	1.50	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	10.00 (Enhanced from Rs. 8.00 Cr)	ACUITE BB/ Stable (Upgraded)
Term Loan	22 April 2018	Not Applicable	28 March 2020	0.32 (Reduced from Rs. 0.75 Cr)	ACUITE BB/ Stable (Upgraded)
Term Loan	18 February 2019	Not Applicable	28 February 2036	1.60	ACUITE BB/ Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00 (Enhanced from Rs. 1.50 Cr)	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BB/ Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Stuti Fomra Analyst - Rating Operations	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

Tel: 011-49731306 stuti.fomra@acuite.in	
---	--

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: *An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.*