

Press Release

Kritika Wires Limited (KWL)

April 09, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 87.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)
Short Term Debt	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) to the Rs.87.00 crore of bank facilities of Kritika Wires Limited (KWL). The outlook is '**Stable**'.

Kritika Wires Limited (Formerly known as Kritika Wires Private Limited) was incorporated in 2006 as a Kolkata based company. The company got listed in National Stock Exchange (NSE) on October 2018. It is promoted by Mr. Naresh Kumar Agarwal and Mr. Hanuman Prasad Agarwal of Kolkata and is engaged in the manufacturing of galvanized and non-galvanized wires. The company has its manufacturing unit in Dhulagarh Industrial Park with an installed capacity of 66200 MTPA. The company caters to state electricity boards such as West Bengal State Electricity Distribution Company Limited (WBSEDCL), Punjab State Power Corporation Limited (PSPCL), Uttar Pradesh Power Corporation Limited (UPPCL), and Gujarat Urja Vikas Nigam Limited (GUVNL) among others. Apart from the government parties, the company also supplies wires to private companies such as Bajaj Wires Private Limited, Lumino Industries Limited (ACUITE A+/Stable/ACUITE A1), Laser Power & Infra Pvt Ltd (ACUITE A/Stable/ACUITE A1) and etc. The company is also engaged in the export of wires to Bangladesh.

Analytical Approach:

Acuité has taken a standalone view of the business and financial risk profile of KWL to arrive at the rating.

Key Rating Drivers:

Strengths

Experienced management

The directors of the company Mr Naresh Kumar Agarwal and Mr. Hanuman Prasad Agarwal have more than one decade of experience in the wire and cables industry. The long experience of the promoters has helped the company to establish comfortable relationship with customers as well as with the suppliers.

Healthy financial risk profile

The healthy financial risk profile of the company is marked by healthy net worth, moderate gearing and comfortable debt protection metrics. The net worth of the company stands healthy at Rs.40.95 crore in FY2018 as its increased from Rs.38.87 crore in FY2017, mainly due to retention of annual profit. Post listing, the networth levels of the company have been enhanced to Rs. 61.55 crore as on December 31, 2018. The gearing of the company stands moderate at 1.10 times as on March 31, 2018 when compared to 0.94 times as on March 31, 2017. The total debt of Rs. 45.07 crore comprises of short term debt of Rs.35.69 crore, unsecured loan from promoters of Rs.9.25 crore and long term debt of Rs.0.13 crore. Interest coverage ratio (ICR) is healthy and stands at 2.30 times in FY 2018 as against 1.89 times in FY 2017. This is mainly on account of increase in EBIT to Rs.13.64 crore in FY2018 compared to Rs.8.60 crore in FY2017. The debt service coverage ratio also stands comfortable at 1.98 times in FY2018 as against of 1.68 times in FY2017. The net cash accruals to total debt stand comfortable at 0.18 times in FY2018 as compared to 0.13 times in the previous year.

Established relationship with customers and suppliers

Over the years, KWL has developed established relationship with its customers and suppliers. Its customer includes mainly DISCOM's along with renowned private customers such as Bajaj Wires Pvt Ltd, Lumino Industries Limited, and Laser Power & Infra Pvt Ltd. Its major supplier for steel wire rods includes Tata Steel Limited, Jindal Steel and Power Limited, Electro Steel Casting Ltd and Rashtriya Ispat Nigam Limited (RINL) among others.

Weaknesses

Working capital intensive nature of operation

The company's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 146 days in 2017-18, as compared to 148 days in 2016-17. These high GCA days emanates from collection period and inventory holding period of 89 days and 41 days respectively in FY18. Company's operations are expected to remain working capital intensive, as the company is engaged in manufacturing of galvanized and non-galvanized wires, which leads to an inventory holding period of around 41 days in order to meet the requirement of their regular customers.

Highly fragmented industry

The fragmented nature of the industry proves to be a major threat. Only 30% of the players in the industry are in the organized sector. (Rest of the players are in the unorganized sector). The limited market share, competitive pressure because of the presence of a large number of players, including small and medium-sized players, and tender-based business will keep operating margins in the manufacturing segment modest at 8 to 9 percent. While KWL's overall profitability will benefit from diversification into higher margin turnkey project segment, material upward movement in margin will be limited due to competitive intensity in the industry.

Liquidity Position:

The company has adequate liquidity marked by healthy net cash accruals of Rs.7.51 crore as against of Rs. 0.13 crore of long term debt obligation in FY2018. The nature of operation of the company is working capital intensive reflected by high gross current asset (GCA) days of 146 in FY 2018. This has led to moderate reliance on working capital borrowings, the working capital limit in the company remains utilised at 70-80 percent during the last 6 months period ended February 2019. Cash and bank balance of Rs.0.62 crore as on March 31, 2018.

Outlook: Stable

ACUITE believes the outlook on KWL rated facilities will remain stable over the medium term backed by its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while improving its working capital cycle. The outlook may be revised to 'Negative' in case the working capital cycle of the company gets further stretched or its financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	255.48	204.65	211.73
EBITDA	Rs. Cr.	16.07	10.89	10.77
PAT	Rs. Cr.	5.08	2.32	2.75
EBITDA Margin	(%)	6.29	5.32	5.09
PAT Margin	(%)	1.99	1.13	1.30
ROCE	(%)	19.03	13.89	14.24
Total Debt/Tangible Net Worth	Times	1.10	0.94	0.86
PBDIT/Interest	Times	2.30	1.89	1.86
Total Debt/PBDIT	Times	2.51	3.02	2.48
Gross Current Assets (Days)	Days	146	148	157

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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
09-Mar-2018	Cash Credit	Long Term	20.50	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB/Stable (Assigned)
	Bill Discounting	Short Term	19.00	ACUITE A2 (Assigned)
	Bill Discounting	Short Term	10.00	ACUITE A2 (Assigned)
	Proposed Long Term	Long Term	0.40	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	5.50	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	8.50	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	4.50	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	8.60	ACUITE A2 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.50	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A2 (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Reaffirmed)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE A2 (Reaffirmed)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.60	ACUITE A2 (Reaffirmed)

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About Acuité Ratings & Research:

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