

Press Release

K G Nandini Enterprises

November 23, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 20.00 crore bank facilities of K G Nandini Enterprises. The outlook is '**Stable**'.

Established in 2008 by Mr. Gopal K N, K G Nandini Enterprises (KGNE) is a proprietorship firm. The firm is engaged in recycling of e-waste and plastic. The firm is also engaged in manufacture of copper rods of 8MM to 20MM diameter. It has an installed capacity to process 7000 tons per annum (TPA) of e-waste and 1200 tons per annum of plastic waste at its plant in Bangalore (Karnataka). The entity also has installed capacity to manufacture 900 TPA of copper rods per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

KGNE is promoted by Mr. Gopal K N with around a decade of experience in e-waste recycling and copper refining business. The entity was established in 2008 and gradually expanded to the present total capacity. KGNE has a competent management supported by a team of well qualified and experienced second line personnel. The promoter's experience in the industry has helped the firm to build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. Major revenues are derived from domestic market, and about 10 percent of revenues are from overseas supplies to Aurubis Belgium, one of the key producer of copper rods in Europe. Acuite believes that promoter's extensive experience and moderate demand would aid the business risk profile of the firm over the medium term.

• Comfortable financial risk profile

KGNE's financial risk profile is marked by healthy gearing (debt-to-equity) and comfortable debt protection metrics. The gearing has been improving from 0.55 times as on March, 2016 to 0.25 times as on March, 2018 due to accretion to reserves. Net worth is modest at Rs.13.95 crore due to better EBITDA margins supporting accretion to reserves. KGNE's moderate net cash accruals and low debt has led to healthy NCA/TD and interest coverage ratio of 0.64 times and 9.30 times in FY2018 vis-à-vis 0.34 times and 7.99 times in FY2017, respectively. The cash accruals are Rs.2.20 crore in FY2018. The firm plans to undertake moderate capex of about Rs.16.0 crore for enhancement of capacity; the same is proposed to be funded out of capex letter of credit of about three years and likely to be grounded during FY2020. Long gestation period for repayment of the debt and moderate cash accruals are expected to support the financial risk profile over the medium term.

Weaknesses

• Intense working capital operations

KGNE has intense working capital operations as evident from Gross Current Assets (GCA) of 211 days as on March 31, 2018 as against 271 days as on March 31, 2017. The intense GCA days were mainly due to high inventory and debtor levels. The inventory days are high at 66 in FY2018, since the entity maintains inventory levels of 90 days due to diversified product profile and high levels of scrap stock. The entity's debtors stood at 64 days as on March 31, 2018 and provides credit period of 90 days to its customers. Moderate working capital management has led to moderate utilisation of working capital limits over the past six months ended August 2018 to the extent of 75 percent. Acuite believes that the working capital operations of the firm will remain intense as evident from the operating cycle of the firm.

Outlook: Stable

Acuite believes that KGNE will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability and improving the liquidity. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected debt-funded capital expenditure or any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	15.83	11.85	11.87
EBITDA	Rs. Cr.	2.47	2.21	2.10
PAT	Rs. Cr.	0.87	0.63	0.48
EBITDA Margin	(%)	15.58	18.65	17.66
PAT Margin	(%)	5.52	5.33	4.04
ROCE	(%)	8.90	7.42	6.91
Total Debt/Tangible Net Worth	Times	0.25	0.55	0.48
PBDIT/Interest	Times	9.30	7.99	6.98
Total Debt/PBDIT	Times	1.40	2.59	2.30
Gross Current Assets (Days)	Days	211	271	230

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)

Not Applicable

*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	1.50	ACUITE BB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.80	ACUITE BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE A4

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Sethu Madhav Analyst - Rating Operations Tel: 022-67141128 sethu.madhav@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuite Ratings & Research:

Acuite 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 Acuite 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. Acuite 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, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite 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. Acuite 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 Acuite.