Press Release

KSP Metal Forge Private Limited

February 13, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' **(read as ACUITE B)** to the Rs. 7.50 crore bank facilities of KSP Metal Forge Private Limited (KMPL). The outlook is **'Stable'**.

Incorporated on 2012, Rajkot based KMPL was promoted by Mr. Kishor Kathrotia and Mr. Satish Bera. The company is engaged in manufacture and supply of wide range of forged component and forged auto parts. These products find application in industries such as automobile, oil & gas, home appliances, bearing and Railways. The ISO 9001:2008 certified sole well equipped manufacturing unit of the company is located at Rajkot (Gujarat). The production capacity has been increased from 200 tons per month in FY2017 to 350 tons per month in FY2018. Presently, the company is in process of increasing capacity to 700 tons per month.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  The Directors have an experience of more than two decades in this industry. The experience has helped the company to establish long lasting relationships with its customers and suppliers.

- **Y-o-Y growth in operating income and operating margins**

  The company has registered healthy growth in revenues of around 44.19 percent in FY18. Revenues for FY2018 stood at Rs.4.16 crore as against Rs.2.88 crore in FY2017 and Rs.2.85 crore in FY2016. For the current year, the company has booked revenues of ~Rs.6.00 crore from April to November, 2018. The orders in hand as on date are to the tune of Rs.4.50 crore. The company has been able to maintain healthy debtor profile with average receivable cycle of 30-40 days. The growth in operating income is driven by the capacity addition over the past two years and further doubling the production capacity. The operating margins also improved marginally to 8.05 percent in FY2018 from 8.04 percent in FY 2017 and 7.14 percent in FY 2016.

- **Average financial risk profile**

  The company has an average financial risk profile marked by high gearing of 5.97 times in FY 2018 as against 6.28 times in FY 2017. The adjusted gearing stood nil in both the years. The debt protection metrics are comfortable as interest coverage ratio stood healthy at 74.84 times in FY 2018. The DSCR stood at 67.90 times in FY 2018.

Weaknesses

- **Debt funded capex plan**

  KMPL has undertaken a moderate capex of Rs.10.00 crore in FY2019; it is funded out of term loan of Rs.7.50 crore and rest by promoters' infusion. Optimal utilisation of installed capacity and maintenance of working capital cycle would be key credit metrics for the rating.

- **Working capital intensive operations**
The working capital operations of the company are intensive marked by high Gross Current Asset (GCA) days of 113 in FY 2018 as against 103 in FY 2017. The company is not availing any working capital limits as the funding for raw material is stretched by higher payable days of 484 in FY2018 as against 274 in FY2017.

Liquidity position

KMPL has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.18 crore to Rs.0.31 crore during the last three years through 2017-18, while its maturing debt obligations was nil over the same period. But the company has undertaken capex for increasing the production capacity. The same is funded by availing the term loan of Rs.7.50 crore and remaining by promoter's fund. The current ratio of the company is below 1 times as on March 31, 2018. Acuité believes that the timely servicing of the external debt obligation will be key sensitive factor.

Outlook: Stable

Acuité believes that KMPL will maintain 'Stable' outlook over the medium term from its experienced management and established market presence. The outlook maybe revised to 'Positive' if the company is able to widen its marketing network resulting in healthy revenue scalability. Conversely, the outlook maybe revised to 'Negative' if the company's financial risk profile deteriorates on account of declining revenue and profitability weakening the above average financial risk profile of the company.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	4.16	2.88	2.85
EBITDA	Rs. Cr.	0.33	0.23	0.20
PAT	Rs. Cr.	0.09	0.05	0.04
EBITDA Margin	(%)	8.05	8.04	7.14
PAT Margin	(%)	2.24	1.65	1.31
ROCE	(%)	8.44	6.65	13.88
Total Debt/Tangible Net Worth	Times	5.97	6.28	6.77
PBDIT/Interest	Times	74.84	405.92	1815.68
Total Debt/PBDIT	Times	4.59	4.45	3.94
Gross Current Assets (Days)	Days	113	103	102

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

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
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE B / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-67141111 aditya.gupta@acuite.in Disha Parmar Rating Analyst - Rating Operations Tel: 022-49294064 disha.parmar@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@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.