

Press Release

KBK Biotech Private Limited

July 29, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.37.00 Cr
Long Term Rating	ACUITE BB+/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.37.00 Cr bank facilities of KBK Biotech Private Limited (KBKPL). The outlook is '**Stable**'.

About the company

Andhra Pradesh-based, KBK Biotech Private Limited was incorporated in the year 2015 and is engaged in manufacturing of Extra Neutral Alcohol (ENA), Impure Spirit (IS) and Distillers Dried/Wet Grains with soluble (DDGS), Hand Sanitizers and Captive Power Generation of 2 Mega-Watt (MW). The commercial operations of the company started from July 2019. The company is promoted by Kundula Balarama Krishna, Kundula Ganga Bhavani, Kundula Murali Krishna, Kundula Suresh Kumar. From March 2020, the company started manufacturing hand sanitizers too.

Rationale for Rating Assigned

The rating assigned on the bank facilities of KBKPL factors in its experienced management, moderate scale of operations and profitability margins and moderate working capital management. These rating strengths are partially offset by its average financial risk profile and highly regulated industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KBKPL to arrive at the rating

Key Rating Drivers

Strengths

• **Experienced management, moderate scale of operations and profitability margins**

KBK was incorporated in the year 2015 by Mr.K. Balarama Krishna (Managing Director) along with his family members who are directors of the company - Mr. K Murali Krishna, Mr. K. Suresh Kumar and Ms. k. Ganga Bhavani. The company started its commercial operations from July 2019. Mr.K. Balarama Krishna, the Managing Director of the company, has experience of more than 3 decades in various verticals such as Real estate. The company is supported by qualified promoters along with other skilled second-line of management. Due to long standing presence of the promoters, the company has established relationships with its customers and suppliers. This has helped the company in achieving moderate revenue of Rs.95.11 Cr for 9M of FY2020. From March 2020, the company has also started manufacturing hand sanitizers. In FY2021(Provisional) the company has achieved the revenue of Rs.136.43 Cr. The profitability margins of the company have remained moderate with EBITDA margin of 13.89 percent and PAT margin of 7.07 percent in FY2021 (Provisional) as against EBITDA margin of 12.10 percent and PAT margin of 2.98 percent in FY2020. Acuité believes that KBKPL will continue to benefit from its experienced management over the medium term.

• **Moderate working capital management**

The working capital management of the company remained moderate and improved with Gross Current Assets of 77 days and 94 days as on March 31, 2021 (Provisional) and 2020 respectively. The debtor days, creditor days and inventory days of the company stood at 33 days, 37 days and 36 days as on March 31, 2021 (Prov.) as against 30 days, 61 days and 52 days respectively as on March 31, 2020. The bank lines of the company remained moderately utilized at ~82 percent for the last six months ended June 2021. Acuité believes that KBKPL's working capital cycle will remain efficient over

the medium term.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the company stood moderate with moderate capital structure and debt protection metrics. The networth of the company stood at Rs.22.01 Cr and Rs.12.40 Cr as on March 31, 2021 (Provisional) and 2020 respectively. Gearing stood at 2.19 times and 4.39 times as on March 31, 2021 (Provisional) and 2020 respectively. Debt protection metrics Interest Coverage Ratio and Debt Service Coverage Ratio stood at 3.42 times and 2.11 times as on March 31, 2021 (Provisional); 2.74 times and 1.57 times respectively as on March 31, 2020. TOL/TNW stood at 2.72 times and 5.35 times as on March 31, 2021 (Provisional) and 2020 respectively. Acuité believes that the financial profile of the KBKPL is expected to be at similar levels over the medium term owing to moderate accretion to reserves and absence of any significant debt-funded capex plans in the next 1-2 years.

• Risk towards implementation of expected capex in the next two years

The company has applied for seeking permission from central government to set up an Ethanol Plant. The approval for the same is awaited. Once approved, the company is planning to set up the plant in the next two years' of time. The expected total project cost is Rs.100.00 Cr; which is planned to be funded through 25 percent of promoters' contribution and 75 percent through bank borrowings. The expected capacity is 45900 Kiloliters per annum. This would be a grain-based ethanol plant. At present, central government is strongly urging for setting up of ethanol plant in order to curb problems in the sugar industry and increased ethanol blending with fossil fuels reduce pollution. This capex is expected to help the company in improving its business and financial risk profile. Acuité believes that timely implementation, funding for the project would be key monitorable.

• Highly regulated industry

The chemical industry are regulated by several policies and bodies in terms of pricing, quality control, safety and health standards, and several other certifications and control standards.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity
- Larger-than-expected reliance on bank borrowings to fund the Ethanol plant

Liquidity Position: Adequate

The liquidity position of the company remained adequate with adequate net cash accruals to service its debt obligations. The NCA's stood moderate at Rs.13.43 Cr in FY2021 (Provisional) as against the repayment obligation of Rs.3.43 Cr for the same period. The NCA's are expected to be in the range of Rs.13-28 Cr through FY22-24 against the repayment obligation of Rs.3.43-3.70 Cr. The current ratio stood at 0.96 times as on March 31, 2021 (Provisional). The cash and bank balance stood at Rs.2.36 Cr as on March 31, 2021 (Provisional). The working capital limits are almost 82 percent utilized for the last 6 months ended June 2021. Acuité believes that the liquidity profile continues to be adequate supported by accruals.

Outlook: Stable

Acuité believes that KBKPL will continue to benefit over the medium term due to its experienced management and established relationships with its suppliers and customers. The outlook may be revised to 'Positive' in case of higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case KBKPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	136.43	95.11
PAT	Rs. Cr.	9.65	2.84
PAT Margin	(%)	7.07	2.98

Total Debt/Tangible Net Worth	Times	2.19	4.39
PBDIT/Interest	Times	3.42	2.74

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

CARE Ratings, vide its press release dated February 28, 2020 had denoted the rating of KBK Biotech Private Limited as 'CARE B; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any Material Covenants:

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	20.00	ACUITE BB+/ Stable (Assigned)
Term Loan	Mar 2017	15.50	Mar 2025	14.50	ACUITE BB+/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB+/ Stable (Assigned)

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About Acuité Ratings & Research:

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