

Press Release
Kilburn Engineering Limited

February 24, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	85.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	79.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	165.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of **A 3** (read as **ACUITE A three**) to the Rs.165.00 Cr bank facilities of Kilburn Engineering Limited . The outlook is '**Stable**'.

Rating Rationale

The ratings assigned to the bank facilities of Kilburn Engineering Limited (KEL) reflect strength derived from track record and expertise of the company in manufacturing drying systems, stable operating performance along with longstanding relationship with reputed clients. The ratings favourably factor in KEL's healthy order book position providing strong medium-term revenue visibility buoyed by its execution capabilities. The rating is further supported by the moderate financial risk profile of the company characterized by moderate network, gearing and debt protection metrics. These strengths are however, partly offset by the working capital intensity in the operations, cyclicity in the domestic capex cycle. Furthermore, successful implementation of resolution plan will be a key rating monitorable.

About the Company

Incorporated in 1987, Kilburn Engineering Ltd (KEL) is engaged in the designing, manufacturing and commissioning of customised equipment/systems for diverse applications in industries such as chemical, petrochemical, oil & gas, refineries, power, steel, cement, fertilizer, mining, sewage treatment, food, among others. It also manufactures specially designed packages required for various onshore and offshore applications. It has a manufacturing and testing facility near Thane, Maharashtra.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of KEL while arriving at the rating.

Key Rating Drivers

Strengths

Experienced track record in manufacturing customized process equipment and established relationship with reputed clients

KEL has over three decades of experience in manufacturing customised process equipment in various industries ranging from chemicals, petrochemicals, oil, gas, refineries, fertilisers, nuclear power plants and food processing industries covering tea, sugar, paddy and coconut. The company has also manufactured certain niche products such as Rotary Dryer for Carbon Black, Instrument and Utility gas drying System (IUGS), Soda ash Calciners. The long track record of its operations and reputed customer profile and established relationships with its key customers, helped the company in procuring repeat orders from reputed corporates like Gujarat Alkalies and Chemicals Ltd, Afcons Infrastructure Limited, Tata Chemicals Limited, Spectrum Dyes & Chemicals Pvt Ltd, Reliance Industries Ltd and Phillips Carbon Black Ltd etc. Moreover, as per the management, KEL has been recognized as an approved vendor by new customers such as Birla Carbon India Private Limited. The company has a long healthy relationship with its customers ranging from 6-30 years ensuring low counterparty credit risk and continuous flow of orders. Furthermore, most of the suppliers are well established and have presence in the industry for more than two decades. The company's suppliers include well-established players such as Jindal Stainless Limited Neelkamal Alloys LLP, Steel Authority of India Limited, Jaiman Metalloys LLP, etc. Acuité believes that KEL's business risk profile is expected to improve over the medium term supported by industry experience and domain knowledge of the management, long-standing relationship with its clientele and long operational track record of operations.

Improving revenue visibility backed by healthy order book

KEL has achieved revenues of Rs. 122.75 crore in FY2022 as compared to revenues of Rs. 88.41 crore in FY2021, thereby registering a y-o-y growth of 38.84 per cent in this year due to an increase in the number of high-value orders received from various segments and low base of last year. KEL had an unexecuted order book position of Rs 202 crores as on 31 Jan 2023. The management also plans to venture into manufacturing of dryers for central effluent treatment, which will further aid the order book in the medium term. During the first 9MFY2023, the company achieved a revenue of Rs. 155 crore as compared to the revenue Rs 65 crore in 9M FY2022 led by better execution of projects. The company has an outstanding order book of Rs. 195 crore as on Dec-22, out of which Rs 100 crore is expected to be executed in the next six months. Acuité believes that the revenues are expected to improve further on account of healthy order book position.

Moderate financial risk profile

KEL's financial risk profile is marked by moderate networth, improved gearing and debt protection metrics. The tangible net worth of the group increased to Rs.73.38 crore as on March 31, 2022 from Rs.47.61 crore as on March 31, 2021 due to accretion of reserves, infusion of equity share capital. Gearing of the company stood moderate at 1.04 times as on March 31, 2022 as against 1.80 times as on March 31, 2021. KEL's credit metrics has improved in FY22 due to the growth in the EBITDA. The company has prepaid the debt obligation that was scheduled to be met in FY23 through the equity infusions that it had received during FY22. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.72 times as on March 31, 2022 as against 2.51 times as on March 31, 2021. The debt protection metrics of the company is marked by Interest Coverage Ratio at 1.64 times as on March 31, 2022 and Debt Service Coverage Ratio at 1.21 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.06 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the group will improve over the medium term on the back of term loan repayments and prepayments, and the likely increase in the EBITDA.

Weaknesses

Working capital cycle marked by high GCA days

Working capital requirements remained high, marked by high gross current asset days of 404 days as on March 31, 2022 compared to 442 days on March 31, 2021. This was mainly due to high unbilled revenues of Rs 56.93 crore and debtors of Rs 50.5 crore as on March 31, 2022. The unbilled revenue is expected to gradually moderate with completion of order book, while the high debtor days is likely to sustain given the operating norms in the business. KEL manages its working capital cycle either through customer advances or supplies goods against the issuance of letter of credit. Acuité believes that the working capital operations of the company will remain intense as evident from its high debtor levels; due to the time taken to execute the orders, operating cycle takes between 1 to 3 months resulting in the large

working capital requirement and staggered deliverables.

Implementation of Resolution Plan

Due to the non-payment of its loan obligations to RBL Bank Limited (RBL) starting in March 2020, KEL underwent debt restructuring in FY21. The resolution plan (RP) sanctioned by RBL in accordance with the Reserve Bank of India's criteria was accepted by the company board on March 4, 2021, and it was put into effect on March 31, 2021. As per the RP, the outstanding principal loan of Rs 95 crores and interest of Rs 9 crores due to RBL up to 31 March 2021 was to be restructured. As part of the debt restructuring, Rs 65 crores of sustainable debt was converted into long-term loans with a 12.5 year payback period at an annual interest rate of 9%, Rs 13.5 crores in equity shares were allocated to RBL, and Rs 25.5 crores in 0.01% cumulative redeemable preference shares (CRPS) were also allocated to RBL. Additionally, as part of the RP, KEL's management was changed, and Firstview Trading Private Limited (FTPL) committed new equity infusions totaling Rs 20 crores in tranches, which were to be deducted from the total loan and CRPS. Over the past two years, FTPL has infused Rs 26.04 crores. FTPL, an investment company, is now the largest shareholder in KEL with 33.23% stake as on 31st December, 2022, followed by Khaitan family and group companies holding 22.11%.

Rating Sensitivities

- Significant ramp up in scale of operations while improving the profitability margin
- Elongation of working capital cycle

Material covenants

None

Liquidity Position Adequate

KEL's liquidity is adequate marked by steady net cash accruals of Rs.4.35 crore as on March 31, 2022 against which company paid term debt of Rs. 2 crore in FY 21-22. KEL had total repayment obligations of Rs 4.3 crores for FY23, but the amount was prepaid by the company during March 2022. During FY22-23, company has also prepaid preference share valued at Rs 10 crore at significant discount which was payable after 14 and 15 years from the date of restructuring. The company is also expected to prepay its debt obligations going forward. The cash and bank balances of the company stood at Rs.7.26 crore as on March 31, 2022 as compared to Rs.9.52 crore as on March 31, 2021. The current ratio stood comfortable at 1.67 times as on March 31, 2022 as compared to 1.44 times as on March 31, 2021. The fund based limit of the company remains utilized at ~ 40 per cent for last six months ended November, 2022. Working capital management of the company is marked by Gross Current Assets (GCA) of 404 days on 31st March 2022 as compared to 442 days on 31st March 2021. KEL has investments in listed companies (Eveready Industries India Limited, Mcleod Russel India Limited, McNally Bharat Engineering Company Limited), with a valuation of Rs 9.67 crores at FY2022; the company does not have any restrictions on exiting these investments. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of its experienced management, moderate business risk profile and financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while sustaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenues or delayed implementation of resolution plan or stretch in working capital cycle leading to deterioration in the liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	122.75	88.41
PAT	Rs. Cr.	1.55	(91.70)
PAT Margin	(%)	1.26	(103.72)
Total Debt/Tangible Net Worth	Times	1.04	1.80
PBDIT/Interest	Times	1.64	(9.67)

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE A3 Assigned
RBL Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	19.50	ACUITE A3 Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.99	ACUITE BBB- Stable Assigned
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.30	ACUITE BBB- Stable Assigned

RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.35	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	33.65	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.51	ACUITE BBB- Stable Assigned
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	58.70	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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