

Press Release
Kilburn Engineering Limited
May 22, 2024
Rating Upgraded



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|--------------------------------|-----------------------|
| Bank Loan Ratings | 82.69 | ACUITE BBB Stable Upgraded | - |
| Bank Loan Ratings | 82.31 | - | ACUITE A3+ Upgraded |
| Total Outstanding Quantum (Rs. Cr) | 165.00 | - | - |

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from **A3** (read as **ACUITE A three**) to the Rs.165.00 Cr. bank facilities of Kilburn Engineering Limited. The outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgradation of Kilburn Engineering Limited is majorly on account of augmentation in the revenues in FY2023 and FY2024 along with an improvement in the EBDITA and financial risk profile. The company's operating income has increased by 80.47% to Rs. 221.53 crore in FY23 from Rs. 122.75 crore in FY22 mainly led by an increase in the contract execution. Further, during 9MFY2024, the company reported revenues of Rs. 207.96 Cr. against 154.85 Cr. during 9MFY2023 marking a growth of 34%.

The EBDITA margin of the company has improved to 15.78% in FY2023 from 11.39% in FY2022 and further to 23.16% in 9M FY2024. The increase in profitability is mainly attributable to the type of contracts the company is taking up currently which includes designing, customization and installation as well resulting in higher profitability. It is also supported by the management's long track record in the sector, healthy order book position, above average financial position characterized by strong debt coverage indicators. These strengths are however, partly offset by the working capital intensity in the operations, cyclicity in the domestic capex cycle.

About the Company

Incorporated in 1987, Kilburn Engineering Limited (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. KEL is based in Kolkata and is managed by Mr. Ranjit Pamo Lala. In February 2024, the company acquired M.E Energy Private Limited. The company is engaged in designing, manufacturing, and installing waste heat reutilization systems solutions in India, Tukey, Japan, USA, Spain, France, Bangladesh, Indonesia, and many more countries worldwide.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Strong Customer Base

The company is having a long track record of more than 3 decades in the industry and has built healthy relationship with their customers and suppliers ranging from 5-30 years. The healthy relationship with customers having very strong credit profile ensures regular orders and low counterparty credit risk.

Further in February 2024, Kilburn has acquired 100 % of the equity share capital of M/s. M.E Energy Private Limited. The said acquisition is expected to augment the organizational prowess, as ME Energy specializes in the production of thermal engineering and heat recovery systems, that is expected to complement the Kilburn Engineering's existing drying systems. This synergy is expected to help in tapping into the existing client bases of both entities along with providing a bundled solution.

Revenue growth and improvement in the profitability

The company's operating income has increased by 80.47% to Rs. 221.53 crore in FY23 from Rs. 122.75 crore in FY22 mainly led by an increase in the contract execution. Further in 9MFY2024, the company reported operating income of Rs. 207.96 Cr. as against Rs. 154.85 Cr. in 9MFY2023. The EBITDA margins improved to 15.78% in FY2023 as against 11.39% in FY2022. The increase in profitability is mainly attributable to more value-added contracts taken by the company that includes designing, customization and installation that resulted in better margins.

Above average financial risk profile

The company's financial risk remains moderate, with a healthy net worth, improving gearing, and moderate debt protection metrics. The tangible net worth stood at Rs. 105.26 Cr. as on March 31, 2023, from Rs. 73.38 Cr. as on March 31, 2022. The company's gearing remains comfortable at 0.61 times as of March 31, 2023, compared to 1.20 times as of March 31, 2022. The coverage indicators improved as reflected by Interest Coverage Ratio (ICR) improved to 6.08 times in FY2023 from 1.64 times in FY2022 and the Debt Service Coverage Ratio (DSCR) at 5.02 times as of March 31, 2023 against 1.21 times in FY2022, respectively. Acuité believes that going forward the financial risk profile of the group will continue to remain healthy on account of healthy profitability and absence of the debt funded capex.

Orderbook position

The company has an unexecuted order book position of around Rs. 250.00 Cr. as on December 2023 end. These orders primarily include silos, rotary, Calciner Set Up and Heaters. The company's order book position continues to remain moderate, which provides revenue visibility for the near to medium term.

Weaknesses

Working capital intensive nature of operations

The working capital-intensive nature of operations of the company marked Gross Current Assets (GCA) of 270 days as on March 31, 2023 as against 404 days as on March 31, 2022. The inventory levels stood at 56 days in FY23 and 34 days in FY22. Subsequently, the debtor's day stood at 74 days in FY23 as against 152 days for FY22. The improvement in debtors is majorly due to completion of projects in FY 2023. 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 debtor levels; due to the time taken to execute the orders, operating cycle takes between 2 to 6 months resulting in the large working capital requirement and staggered deliverables.

Rating Sensitivities

- Sustainable improvement in revenue while maintaining Profitability and key credit metrics
- Elongation of working capital cycle or major debt funded capex impacting the liquidity position of the company

Liquidity Position Adequate

The company's liquidity is adequate as reflected by the net cash accruals worth Rs. 32.78 Cr. in FY2023 against annual repayment obligation of Rs. 5 Cr. The company has prepaid its debt obligations for FY24 and FY25. The free cash and bank balances (including free FDs) stood minimal at Rs. 1.76 Cr. on March 31, 2023. Further, the company has buffer in the fund based limits with an average utilisation of 44.09% for 6 months ending March 31, 2024.

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.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 221.53 | 122.75 |
| PAT | Rs. Cr. | 30.13 | 1.55 |
| PAT Margin | (%) | 13.60 | 1.26 |
| Total Debt/Tangible Net Worth | Times | 0.61 | 1.20 |
| PBDIT/Interest | Times | 6.08 | 1.64 |

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

Not Applicable

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>
- 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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---------------------------------|
| 24 Feb 2023 | Bank Guarantee (BLR) | Short Term | 18.00 | ACUITE A3 (Assigned) |
| | Bank Guarantee (BLR) | Short Term | 19.50 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 6.00 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 3.99 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 4.30 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 5.00 | ACUITE BBB- Stable (Assigned) |
| | Letter of Credit | Short Term | 8.35 | ACUITE A3 (Assigned) |
| | Proposed Bank Guarantee | Short Term | 33.65 | ACUITE A3 (Assigned) |
| | Proposed Cash Credit | Long Term | 7.51 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 58.70 | ACUITE BBB- Stable (Assigned) |

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 avl. / Not appl. | Bank Guarantee (BLR) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 18.00 | ACUITE A3+ Upgraded (from ACUITE A3) |
| RBL Bank | Not avl. / Not appl. | Bank Guarantee (BLR) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 10.00 | ACUITE A3+ Upgraded (from ACUITE A3) |
| The Federal Bank Ltd | Not avl. / Not appl. | Bank Guarantee (BLR) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 10.00 | ACUITE A3+ Upgraded (from ACUITE A3) |
| Punjab National Bank | Not avl. / Not appl. | Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 6.00 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| Union Bank of India | Not avl. / Not appl. | Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 3.99 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| Federal Bank | Not avl. / Not appl. | Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 4.00 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| RBL Bank | Not avl. / Not appl. | Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 5.00 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| Union Bank of India | Not avl. / Not appl. | Letter of Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 8.35 | ACUITE A3+ Upgraded (from ACUITE A3) |
| | | | | | | | | ACUITE |

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|-------------------|----------------------|-------------------------------------|----------------------|----------------------|----------------------|--------|-------|---|
| Indusind Bank Ltd | Not avl. / Not appl. | Letter of Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 12.50 | A3+ Upgraded (from ACUITE A3) |
| Not Applicable | Not avl. / Not appl. | Proposed Bank Guarantee | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 23.46 | ACUITE A3+ Upgraded (from ACUITE A3) |
| Not Applicable | Not avl. / Not appl. | Proposed Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 5.00 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| RBL Bank | Not avl. / Not appl. | Term Loan | 23 Feb 2021 | Not avl. / Not appl. | 30 Sep 2033 | Simple | 53.70 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| Indusind Bank Ltd | Not avl. / Not appl. | Working Capital Demand Loan (WC DL) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 5.00 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |

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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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