Press Release

KRYFS Power Components Limited

April 11, 2023

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	60.00	ACUITE A- | Stable | Assigned	-
Bank Loan Ratings	275.00	-	ACUITE A1 | Assigned
Total Outstanding Quantum (Rs. Cr)	335.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **ACUITE A- (read as Acuite A minus)** and short term rating of **ACUITE A1 (read as Acuite A one)** on Rs 335 Cr bank facilities of Kryfs Power Components Limited (KPCL). The outlook is **'Stable'**.

Rationale for rating assigned
The rating assigned takes into account the experienced management and established track record of operations of KPCL for more than three decades in manufacturing of CRGO laminations, transformers and transformer core. Further, the rating factors in the strategic investment of 20% by Toyota Tsusho Corporation (Japan subsidiary of automobile Toyota) in KPCL. The rating is also driven by augmentation in business risk profile backed by improvement in scale of operations as well as operating margins in FY 2022. The revenue of the group has increased to Rs 581.62 Cr in FY 2022 as against Rs 462.96 Cr in FY 2021. Further, the operating margins have also improved and stood at 10.57% in FY 2022 as against 5.94% in FY 2021. The said growth in revenue is expected to continue going forward as the group has already achieved a revenue of Rs 644.11 Cr till December 2022. However, margins have deteriorated and stood at 8.86%. Further, the financial risk profile of the company remains healthy with low gearing and strong debt protection metrics as the company has not availed any long term bank finance. The reliance on short term bank borrowing also remain very low with no utilization in fund based limits for last 8 month ended December 2022 whereas non-fund based limits remain utilized at moderate level of 87% during the same period.
However, the above mentioned rating strengths are partly offset by the working capital intensive nature of operations with high GCA days of 264 days in FY 2022 majorly constitutes of receivables and vulnerability of profitability to fluctuation in steel prices.

About Company

KRYFS Power Components Limited (KPCL) is established in 1991 & commenced operations in December 1992 as a manufacturing and trading company, with its first manufacturing plant in Palghar, Maharashtra, 110 kms from Mumbai. Considering the ever-growing demand for electricity in all parts of the country, it initiated with manufacturing the most critical raw material for the manufacture of transformers, CRGO laminations and transformer core. KRYFS is India's leading Transformer Core manufacturing company with a capacity to process 40,000 MTPA of CRGO Electrical Steel. KRYFS manufactures & supplies high quality low loss

Amorphous Core loops for both 1-Phase and3-Phase distribution transformer by using amorphous metal imported from prominent source. Currently, KPCL also have 3 units located at Silvassa for manufacturing of CRGO lamination and transformers.

About the Group

Kryfs Group is comprises of Kryfs Power Components Limited (KPCL), Kryfs Transformers Pvt Ltd(KTPL), Satyam (Fab) Industries Pvt Ltd (SIPL) and Kryfs Electricals Pvt Ltd (KEPL).
KPCL is majorly engaged into manufacturing of CRGO Laminations, Tansformer cores and transformers and having its 1 unit loacated at Palghar and 3 units at Silvassa with a capacity of 40,000 MTPA and 2000 MVA.
KTPL's unit is located at Baroda acquired in 2012 from Pratik Transformers Pvt Ltd, specifically for manufacturing of transformers.
SIPL is acquired in 2018 and is specialised in manufacturing of tank (steel facbrication) of transformers with a capacity of 5000 MTPA.
KEPL is a non-operational.

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

The team has considered a consolidated approach for the rating exercise of Kryfs Power Components Limited. The following 100% subsidiaries have been consolidated:

- Kryfs Transformers Private Limited (KTPL)
- Satyam (Fab) Industries Private Limited (SIPL)
- Kryfs Electricals Private Limited (KEPL)

Key Rating Drivers

Strengths

Established track record of operations along with experienced management

The KPCL is established in 1992 and is engaged in manufacturing of CRGO Lamination, Transformers and transformers core since then thus having a track record of more than three decades in this business. Further, the directors of the company Mr Rauzat Saifuddin Qureishi and Mr Saifuddin Fakhruddin Qureishi have an experience of more than 22 years and 12 years respectively in this line of business. The established track record and experienced management has helped the group to maintain a longstanding relationship with reputed customers and suppliers. The customers of the company include Transformers and Rectifiers Ltd, Bharat Bijlee Ltd, ECE Industries Ltd, South Bihar Distribution and Retrasib SA among the others. The group is procuring materials from suppliers namely Toyota Tsusho Corporation, NLMK Group and ThyssenKrupp among others. These three supplier caters to almost 70% of the raw material requirement of the group. The group is not having any such formal contracts with these vendors for supply of raw materials but however, is having a longstanding relationship with them and basis that there is an understanding between them for the supply of 10,000-12,000 MT of raw materials per annum.

Acuite believes that KPCL will continue to benefit from its established track record and presence along with longstanding relationship with reputed customers and suppliers.

Augmentation in Business risk profile

The operating income of the group has improved and restored at pre-covid levels in FY 2022 and stood at Rs 581.62 Cr against Rs 462.96 Cr in FY 2021 and Rs 559.89 Cr in FY 2020. The decline in revenue in FY 2021 is majorly due to the impact of COVID induced lock down in early FY 2021 which impacted operations in HY FY 2021 with revenue recorded at Rs 153.55 Cr against Rs 256.75 Cr in previous year during the same tenure. Further, the revenue of the group has significantly improved and stood at Rs 644.12 Cr till December 2022 driven by both increase in volume sales and price realization. The capacity utilization also stand improved in

YTD performance with utilization of 54.1% and 16.9% as against 53.7% and 6.2% in FY 2022 for CRGO lamination and transformer respectively. The healthy order book position of Rs 483.89 Cr as on February 2023 which is to be executed in next 4-6 months provides revenue visibility over the medium term. The group is expected to close this financial year with a revenue of approx. Rs 750 Cr.
The operating margins have improved substantially in FY 2022 to 10.57% as against 5.94% In FY 2021 and 5.09% in FY 2020. The improvement in operating margins are driven by increase in exports revenue to 25% in FY 2022 as compared to 10-15% in previous years and the decline in raw material prices. However, the margins have deteriorated in YTD (till December 2022) to 8.86%. The PAT margins has also improved and stood at 5.95% in FY 2022 as against 0.98% in FY 2021 and 0.21% in FY 2020. The company exports to countries such as USA, Europe, Middle East, Romania, etc.

Acuite believes that scale of operations may continue to improve over the medium term backed by healthy order book position and demand prospects from the power system equipment. However, maintaining the operating margins is a key rating sensitivity.

Healthy Financial Risk Profile
The financial risk profile of the company remains healthy with healthy net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs 304.02 Cr as on March 2022 against Rs 269.01 Cr as on March 2021 and Rs 264.13 Cr as on March 2020. The increase in net worth is majorly due to accretion of profits to the reserves. The company follows a conservative financial risk policy reflected by its peak gearing of 0.29 times in FY 2020. Gearing has improved to 0.08 times in FY 2022 as against 0.25 times in FY 2021. TOL/TNW of the company has improved and stood at 0.74 times in FY 2022 as against 0.91 times in FY 2021 and 1.11 times in FY 2020. The leverage ratios remained low as group has not availed any long term bank finance for asset creation in recent past and utilization of fund based short term borrowings also remain very low. Further, the debt protection metrics of the company remains strong with interest coverage ratio stood at 7.41 times in FY 2022 as against 2.01 times in FY 2021 and DSCR stood at 5.45 times in FY 2022 as against 1.78 times in FY 2021.
The company is planning to construct a unit at Silvassa on the land which is already procured and in the same area where other three units are located. The cost of such construction is expected to be around Rs 40 Cr and will be met through internal accruals.

Acuite believes that financial risk profile of the Kryfs group may continue to remain healthy over the medium term with improved operations and no major debt-funded capex.

Weaknesses
Working Capital Intensive Operation
The working capital operations of the company are intensive marked by GCA days of 264 days in FY 2022 as against 310 days in FY 2021 and 278 days in FY 2020. However, GCA days have improved in FY 2022 supported by improved realisations as debtor days improved and stood at 162 days in FY 2022 as against 229 days in FY 2021 and 197 days in FY 2020. The debtor days are expected to remain moderate only as credit period allowed to customer is 150 days. Further, the debtor days have improved as on February 2023 and stood at around 110 days. On the other side, inventory days has increased and stood at 90 days in FY 2022 as against 62 days in FY 2021 and 67 days in FY 2020. The company needs to maintain an inventory of raw material for 60-90 days as they are importing majority of their requirements. Further, the lead-time for manufacturing CRGO lamination and transformer is 10-15 days and 40-45 days respectively. However, the creditor days stood at 146 days in FY 2022 as against 133 days in FY 2021 and 131 days in FY 2020. The creditor days are higher as it includes the LC backed purchases wherein the tenure of LC is 120 days.
Acuite believes that operations of the group may continue to remain working capital intensive over the medium term considering the credit period allowed to customers and requirement towards maintaining sufficient level of inventory. However, any deterioration in receivable position going
forward remains key rating monitorable.

Vulnerability of profitability to raw material prices

The profitability margins of the group remain vulnerable to any fluctuations in the raw material prices. The major raw material for this industry is steel and fluctuation in the prices of same may put pressure on profitability levels. The level of competition is fairly high for governmenttenders. At the lower end of distribution of transformer market there is some fragmentation, though there are largely organised players like Toshiba, BHEL ABB, CG Power & others.

Rating Sensitivities

- Improvement in operating income while maintaining profitability margins
- Deterioration in receivable position

Material Covenants

None

Liquidity Position

Adequate

The liquidity position of the company remains adequate with sufficient net cash accruals to repay its maturing debt obligation. Further, the company have negligible long-term loans to repay going forward. The realization from receivables has also improved in 11M FY 2023 as compared to previous years. However, GCA days are high at 264 days in FY 2022 as against 310 days in FY 2021. The fund based bank limits remain unutilized by the company in last 8 months ending December 2022. However, non-fund based limits remain utilized at 87% for 8 months ending December 2022.

Acuite believes that liquidity of the KPCL may continue to remain adequate with no major debt obligations to pay and healthy cash accruals supported by growth in operations.

Outlook: Stable

Acuité believes that the outlook on KPCL will remain 'Stable' over the medium term on account of the long track record of operations along with improving scale of operations and the company's healthy financial risk position. The outlook may be revised to 'Positive' in case of significant growth in revenue from the current levels while sustaining its margins and financial risk profile and improvement in working capital operations. Conversely, the outlook may be revised to 'Negative' in case of a significant deterioration in the revenues or operating margins and further elongation in its working capital cycle leading to stretch in liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	581.62	462.96
PAT	Rs. Cr.	34.62	4.55
PAT Margin	(%)	5.95	0.98
Total Debt/Tangible Net Worth	Times	0.08	0.25
PBDIT/Interest	Times	7.41	2.01

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

Not Applicable

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité 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
Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE A1 | Assigned
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A- | Stable | Assigned
CITI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A- | Stable | Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- | Stable | Assigned
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	125.00	ACUITE A1 | Assigned
CITI Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	55.00	ACUITE A1 | Assigned
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A1 | Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Sehal Birla Senior Manager-Rating Operations Tel: 022-49294065 sehal.birla@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.