

Press Release

KBS Industries Limited (Erstwhile KBS Industries Private Limited)

April 26, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	61.50	ACUITE BBB Negative Reaffirmed	-
Bank Loan Ratings	48.50	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	110.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as ACUITE A three plus) on the Rs. 110.00 crore bank facilities of KBS Industries Limited (Erstwhile KBS Industries Private Limited) (KBSIL). The outlook continues to be '**Negative**'.

Rationale for Rating Action

The rating on KBSIL takes into account the growth expected in the operating income and stability in operating margins over the medium term. The rating is supported by the experienced management, long track record of operations. These strengths are, however, partly offset by the Intensive working capital operation and High Utilization of Working capital limits.

About the Company

KBS Industries Limited (Erstwhile KBS Industries Private Limited) (KBSIL) was incorporated in 2012, promoted by Mr. Arjun Anand, is engaged in the business of manufacturing of high quality semifinished copper and copper alloy products like copper wire rods, ingots etc which are widely used in engineering, electrical and manufacturing industries. The factory is based at Barhi Industrial Area, Haryana and another recently established facility is located at Silvassa. The plants have an installed capacity of 5600 MTPA for each location

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KBSIL to arrive at this rating

Key Rating Drivers

Strengths

Business risk profile - Improvement

KBSIL's operations improved as reflected by improvement in revenue from operations which stood at Rs 237.28 crore in FY2022 as against Rs 177.81 crore in FY 2021 (Rs 313.40 crore for FY2020). Revenue improved by ~33 percent in FY 22 in comparison to FY 21. Operations of

company are within domestic boundaries. The operating profit margin of the company witnessed moderation of 3.02% and stood at 6.07% in FY2022 as against 9.09% in FY2021. Furthermore, the net profit margin of the company moderated by 57 bps and stood at 1.30 percent in FY2022 as against 1.87 percent in FY2021.

Furthermore, the company has recorded revenue of Rs ~333 crore for FY23. Currently, the company has orders in hand of ~Rs 161 crore. ROCE of the company stood at 7.42% in FY2022.

Financial risk profile-Moderate

KBSIL's financial risk profile is moderate marked by moderate net worth of Rs. 75.53 crore as on 31 March 2022 as against Rs.72.41 crore as on 31 March, 2021. The improvement is majorly on account of accretion of profits. Company has conservative leverage policy. The gearing (debt-equity) stood moderate at 1.38 times as on 31 March, 2022 as against 1.26 times as on 31 March, 2021. Gearing moderated by 8 bps despite of profits accretion reason being additional GECL extension loans taken during the year. The total debt outstanding of the company is Rs.103.89 crore as on 31 March, 2022 which consists of long term bank borrowings of Rs.20.35 crore and short term working capital limit of Rs. 80.87 crore with current maturities of long term debt of Rs 2.67 crore.

The interest coverage ratio stood low at 1.45 times for FY2022 as against 1.65 times for FY2021. The DSCR also stood comfortable at 1.43 times for FY2022 as compared to 1.51 times for FY2021. The Net Cash Accruals to Total debt remained constant and stood at 0.05 times as on FY2022 and FY2021. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 1.77 times in FY2022 as against 1.84 times for FY2021.

Weaknesses

Working capital management- Intensive

Working capital operations of the company are improved yet intensive in nature as reflected by its gross current asset (GCA) days of 254 days as on March 31, 2022 as against 334 days as on March 31, 2021 which is on account of higher inventory and Debtors days in FY 21. Inventory days improved and stood at 187 days as on March 31 FY2022 as against 250 days as on March 31 FY2021. Debtor days improved to 60 days as on March 31 FY2022 as against 90 days as on March 21 FY2021. The creditor days stood at 38 days as on March 31, FY2022 as against 57 days as on March 31, 2022. Utilization of fund based working capital limits remains high at ~96% in last eleven months ended February 2023.

Susceptible to fluctuations in prices of raw material and forex rates

The major raw material of the company is copper scrap. The company's performance remains vulnerable to cyclicity in the copper sector as demand for copper depends on the performance of the end user segments such as construction, electrical & engineering industries etc. Moreover, the prices of the same are fluctuating in nature, therefore the operating profit margins of the company is susceptible to raw material price fluctuation

Rating Sensitivities

Further increase in the outside liabilities affecting the financial risk profile
Further elongation in the working capital cycle

Material covenants

None

Liquidity Position Stretched

Liquidity profile of the company remained stretched marked by high utilization of Working capital limits, funding of working capital requirements through term loans and profits. Although company generated adequate net cash accruals against its maturing debt obligations the surplus was used to fund the working capital requirements. Company generated cash accruals of Rs.4.77 Crore in FY2022 as against its maturing debt obligation of 0.30 Crore in the same period. Cash and Bank Balance of Rs 1.17 crore support liquidity of the company. Further company has fixed deposits of Rs 5.36 crore and out of these fixed deposits Rs 2.67

crore are unencumbered.

Utilization of fund based working capital limits remains high at ~96% in last eleven months ended February 2023. The current ratio of the company stood at 1.53 times as on March 31, 2022 as against 1.38 times as on March 31, 2021. Further all debtors of the company are within 90 days bracket.

Outlook: Negative

Acuité believes that the KBSIL's credit profile will be impacted because of the significant increase in the outside borrowings and High Utilization of working capital limits. The overall financial risk profile may be adversely impacted in case of additional debt and deterioration in working capital management. Moreover, the operations are working capital intensive marked by GCA of 254 days for FY 22. The rating may be further downgraded in case of elongation in the working capital cycle and weak debt coverage indicators impacting the liquidity. Conversely, the outlook may be revised to 'Stable' in case of sustained improvement in the company's scale of operations, working capital cycle, low utilization in working capital limits and maintenance of the debt coverage indicators

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	237.28	177.81
PAT	Rs. Cr.	3.08	3.32
PAT Margin	(%)	1.30	1.87
Total Debt/Tangible Net Worth	Times	1.38	1.26
PBDIT/Interest	Times	1.45	1.65

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

IND-RA vide its press release dated 28 July 2022, has mentioned the rating of SRM to " [IND-RA) B/A4" Issuer Not Cooperating since 10 May 2017.

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, 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Feb 2022	Letter of Credit	Short Term	12.00	ACUITE A3+ (Reaffirmed)
	Working Capital Term Loan	Long Term	3.30	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	24.00	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB Negative (Reaffirmed)
	Letter of Credit	Short Term	14.50	ACUITE A3+ (Reaffirmed)
	Working Capital Term Loan	Long Term	2.40	ACUITE BBB Negative (Reaffirmed)
	Working Capital Term Loan	Long Term	2.30	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	17.50	ACUITE BBB Negative (Reaffirmed)
	Letter of Credit	Short Term	22.00	ACUITE A3+ (Reaffirmed)
28 Aug 2020	Proposed Bank Facility	Short Term	4.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	17.50	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	22.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	4.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	24.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	14.50	ACUITE A3+ (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE BBB Negative Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB Negative Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	24.00	ACUITE BBB Negative Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.50	ACUITE A3+ Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE A3+ Reaffirmed
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.30	ACUITE BBB Negative Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.40	ACUITE BBB Negative Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.30	ACUITE BBB Negative Reaffirmed

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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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