

Press Release

Kunal Conchem Private Limited

January 30, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.12.50 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.12.50 crore bank facilities of KUNAL CONCHEM PRIVATE LIMITED (KCPL). The outlook is '**Stable**'.

Haryana based, KCPL was incorporated in 2009. The company is engaged in manufacturing of chemicals for construction companies. KCPL manufactures various grades of super-plasticizers; (Naphthalene base and PC base), water-proofing compounds, tile adhesives, curing compounds, shuttering oil (mould release agent), anti-carbonation coatings, floor hardeners, epoxy floorings, grouts resin capsules/cement capsules, sodium silicate base accelerators and aluminium sulphate base accelerators, dry shotcrete powder. The company has 3 plants; located in Faridabad, Gujarat and West Bengal with total installed capacity of 30,000 MT. The average utilization remains ~50-60%.

KCPL's notable customers include PNC Infratech Limited, Ashoka Buildcon Limited, and Larsen & Toubro Limited to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

Mr. Narendra Prasad (Director) has an experience of more than four decades; while Mrs. Indira Prasad (Director), Mr. Kunal Prasad (Director) and Mr. Mrinal Prasad (Director) have an experience of nearly a decade in the aforementioned line of business. The established track record of operations and experience of the management has helped the company to develop healthy relationships with its customers and suppliers.

The company reported revenues of Rs. 103.20 crore for FY2019 as against Rs. 77.79 crore for FY2018. Further, the company has generated revenues of Rs.68.33 crore (Provisional) for FY2020 (9M). This was mainly on account of acquisition of new clientele such as G. R. Infraprojects Limited and Gayatri Projects Limited.

Acuite believes that KCPL will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

• Healthy financial risk profile

The company has healthy financial risk profile marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth stood at Rs.41.88 crore as on 31 March, 2019 as against Rs.30.62 crore on 31 March, 2018. The increase in the net worth was mainly due to healthy accretion to reserves. The gearing (debt-to-equity) improved to 0.03 times as on 31 March 2019 as against 0.16 times as on 31 March, 2018. The total debt of Rs.27.52 crore as on 31 March, 2019 consist of long term debt of Rs.1.04 crore and unsecured loans of Rs.0.42 crore. The interest coverage ratio stood at 93.06 times for FY2019 as compared to 57.92 times for FY2018. Total outside liabilities to tangible net worth (TOL/TNW) stood at 0.81 times as on 31 March 2019 as against 0.95 times as on 31 March 2018. The revenues of the company improved to Rs.

103.20 crore during 2018-19, while its operating margins deteriorated from 16.88 per cent in FY2018 to 15.62 per cent in FY2019. The healthy profitability levels coupled with moderate debt levels have led to healthy debt protection metrics. The NCA/TD ratio improved to 8.18 times in FY2019 as compared to 1.77 times in FY2018.

Acuite believes that the financial risk profile of the company is likely to remain healthy over the medium term, on account of absence of any major debt funded capex, low gearing and healthy protection metrics.

Weaknesses

• Working capital intensive nature of operations

Operations of the company are working capital intensive marked by gross current assets (GCA) of 192 days in FY2019 as compared to 213 days in FY2018. This is on account of debtors' collection period of 145 days in FY2019 as against 174 days in FY2018 and inventory holding period of 40 days in FY2019 as against 45 days in FY2018.

Acuite believes that the working capital operations of the company will continue to remain intensive over the medium term on account of elongated debtors' collection period.

• Competitive and fragmented industry

The chemical industry is highly competitive due to low entry barriers that result in intense competition from the large number of organized and unorganized players present in the market. However, the risk is mitigated to an extent on account of established track record of operations. The material cost is the primary cost driver accounting for ~70 per cent of total sales. Further, the company's revenue and profitability are susceptible to the inherent cyclicity in the chemical industry and volatility in raw material prices.

Liquidity position: Adequate

KCPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 8.88 crore for FY2019 with debt repayment obligation of Rs. 0.19 crore for the same period. The cash accruals of KCPL are estimated to remain in the range of around Rs. 10.97 crore to Rs. 12.15 crore during 2020-22 against debt repayment obligations in the estimated range of around Rs. 0.19 crore per year in the same period. The company's working capital operations are intensive marked by 192 gross current asset (GCA) days for FY2019. The average bank limit utilization for the past six months ended December 2019 stood at ~12.91 percent. The company maintains unencumbered cash and bank balances of Rs. 2.84 crore as on 31 March 2019. The current ratio stood at 1.90 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate on account of adequate cash accrual against debt repayments over the medium term.

Rating Sensitivities:

- Substantial improvement in EBITDA margins.
- Significant reduction in GCA days.

Outlook: Stable

Acuite believes that KCPL will maintain a 'Stable' outlook on account of experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	103.02	77.79
PAT	Rs. Cr.	11.30	8.45
PAT Margin	(%)	10.97	10.86
Total Debt/Tangible Net Worth	Times	0.03	0.16
PBDIT/Interest	Times	25.53	35.39

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.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	6.50	ACUITE BBB-/ Stable
Letter of Credit**	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3

*Includes sub-limit of WCDL-I to the extent of Rs.2.50 crore, LC-II to the extent of Rs. 4.00 crore, BC-II to the extent of Rs.4.00 crore.

**Includes sub-limit of BC-I to the extent of Rs.6.00 crore, BG to the extent of Rs.1.00 crore.

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