

Press Release

Kunal Conchem Private Limited

June 28, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.12.50 crore
Long Term Rating	ACUITE BBB/ Outlook: Stable (Upgraded from ACUITE BBB- Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (read as **A three plus**) from '**ACUITE A3**' (read as **A three**)' on the Rs.12.50 crore bank facilities of Kunal Conchem Private Limited. The outlook is 'Stable'.

Reason for rating upgrade

The rating upgrade reflects a substantial improvement in the overall business and financial risk profile of the company. The improvement in the business risk profile is reflected through the increased profitability in FY2021 and FY2020 as compared to the preceding years due to decline in raw material prices. Moreover, the company has witnessed a sharp improvement in its capital structure and debt protection ratios due to sustenance of healthy profitability margin. Acuite believes that efficient working capital management will remain critical to sustained growth in the scale of operations.

About the Company

Haryana based, Kunal Conchem Private Limited (KCPL) was established in 2009. The directors of the company are Mr. Narendra Prasad, Mrs. Indira Prasad, Mr. Kunal Prasad and Mr. Mrinal Prasad. The company is engaged in the manufacturing of chemicals for construction companies. KCPL has 3 plants; located in Faridabad, Gujarat and West Bengal with installed capacities of 12000MT, 10000MT and 8000MT respectively. The notable customers that KCPL cater to include PNC Infratech Limited, Ashoka Buildcon Limited, and Larsen & Toubro Limited to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Kunal Conchem Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- Experienced management and improving business risk profile**

KCPL was incorporated in 2009. The directors of the company are Mr. Narendra Prasad, Mrs. Indira Prasad, Mr. Kunal Prasad and Mr. Mrinal Prasad. Mr. Narendra Prasad has an experience of over four and a half decades while Mrs. Indira Prasad, Mr. Kunal Prasad and Mr. Mrinal Prasad have an experience of over a decade in the said line of business. The established track record of operations and experience of management has helped the firm to develop healthy relationships with customers and suppliers.

KCPL witnessed growth in revenue and profitability over the last year through FY2021 (Prov) at Rs.95.59 crore from Rs. 88.37 crore in FY2020. Further, the profitability margins have also improved marked by operating margins and PAT margins of 29.07 percent and 22.77 percent in FY2021 (Prov) as against 22.25 percent and 16.22 percent in FY2020, respectively.

Acuité believes that KCPL will sustain its existing business profile backed by established track record of operations and experienced management.

• **Healthy financial risk profile**

The company has healthy financial risk profile marked by healthy net worth, low gearing and average debt protection metrics. The net worth stood at Rs.77.98 crore as on 31 March, 2021 (Prov) as against Rs.56.22 crore on 31 March, 2020 due to healthy accretion to reserves.

The company has followed a conservative financial policy in the past; the same is reflected through its gearing levels of 0.06 times as on March 31, 2021 (Prov). Total outside liabilities to tangible net worth (TOL/TNW) stood at 0.51 times as on 31 March 2021 (Prov) as against 0.45 times as on 31 March 2020. The company on the other hand generated cash accruals of Rs.22.60 crore in FY2021 (Prov) as against Rs.15.31 crore in FY2020. The NCA/TD and interest coverage ratio for FY2021 (Prov) stood at 4.80 times and 146.66 times respectively.

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

Weaknesses

• **Working capital intensive operation**

The company's operations are working capital intensive marked by its gross current asset (GCA) of around 180 days in FY2021 as against 176 days in FY2020 and 192 in FY2019. This is mainly on account of stretched debtors of 148 days in FY2021 (Prov) and 130 days in FY2020. The company has maintained an inventory holding period of 40 days as on 31 March, 2021 (Prov) as against 52 days as on 31 March, 2020.

Acuite expects the working capital operations of the company to remain intensive over the medium term on account of its debtor collection period.

• **Highly competitive and fragmented nature of industry**

The company operates in a highly competitive and fragmented industry being characterised by large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the company.

Rating Sensitivity

- Substantial improvement in the scale of operation, while maintaining the profitability margin
- Stretched working capital cycle and deterioration in liquidity position

Material Covenants

None

Liquidity position - Strong

KCPL has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 22.60 crore for FY2021 (Prov). The company's working capital operations are intensive marked by 180 gross current asset (GCA) days for FY2021 (Prov). The current ratio stood at 2.59 times as on 31 March 2021 (Prov). Acuite believes that the liquidity of the company is likely to remain strong on account of healthy cash accrual against debt repayments over the medium term.

Outlook: Stable

Acuite believes that KCPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov)	FY20 (Actual)
Operating Income	Rs. Cr.	95.59	88.37
PAT	Rs. Cr.	21.76	14.33
PAT Margin	(%)	22.77	16.22
Total Debt/Tangible Net Worth	Times	0.06	0.03
PBDIT/Interest	Times	146.66	25.28

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Jan-2020	Cash Credit*	Long Term	6.50	ACUITE BBB-/Stable (Assigned)
	Letter of Credit**	Long Term	6.00	ACUITE A3 (Assigned)

*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.

*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 (Upgraded from ACUITE BBB-/Stable)
Letter of Credit**	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3+ (Upgraded from 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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About Acuite Ratings & Research:

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