



Press Release
Kunal Conchem Private Limited
December 08, 2023
Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|-------------------------------------|----------------------------|
| Bank Loan Ratings | 6.50 | ACUITE BBB Stable Reaffirmed | - |
| Bank Loan Ratings | 6.00 | - | ACUITE A3+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 12.50 | - | - |

Rating Rationale

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

Rationale for Rating Reaffirmation

The rating action takes into account improved Financial risk profile and Strong liquidity Position. Company reported growth in revenue from operations by ~17% in FY2023 to Rs. 113.83 crore as against Rs. 96.89 crore for FY2022 (19 percent from FY 21 to FY 23). Company reported PAT of Rs 16.22 crore in FY 23 as against Rs 15.56 crore in FY 22. Financial risk profile of the company improved and gearing improved and stood at nil, coverage indicators improved and stood strong. Interest coverage ratio stood comfortable at 132.16 times for FY2023 and Debt Service coverage ratio stood at 44.64 times for FY2023. Current Ratio stood at 4.23 times as on 31 March 2023. Rating is constrained on account of high working capital operations, dip in operating margin and exposed to foreign exchange fluctuations.

Acuite believes that the company's ability to grow its scale of operations and profitability while maintaining a healthy capital structure remains a key rating indicator.

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.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

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.

Business risk profile

KCPL's operation witnessed improvement which is apparent from growth in revenue from operations by ~17% in FY2023 to Rs 113.83 crore as against Rs. 96.89 crore for FY2022 (~19 percent from FY 21 to FY 23). The operating profit margin of the company witnessed dip of 244 bps yet stood comfortable. Operating Profit Margin of company stood at 17.77% in FY2023 as against 20.21% in FY2022. Net profit margin of the company stood at 14.25 percent in FY 23 as against 16.06 percent in FY2022. ROCE of the company stood at 20.87 percent in FY2023.

Financial Risk Profile- Healthy

Company has healthy financial risk profile marked by healthy net worth, low gearing and strong coverage indicators. The Total Tangible net worth stood at Rs. 107.77 Cr as on 31st March 2023 as against Rs. 91.64 Cr a year earlier. Increase in net worth is on account of Profit accretion. Company follows conservative leverage policy marked by low gearing. Debt to Equity ratio improved and stood nil at end of FY 2023 as against 0.14 times in FY 22. Improvement in gearing is on account of increase in Net Worth and credit balance available in working capital limits.

Interest coverage ratio stood strong at 132.16 times for FY2023 as against 89.72 times in FY2022. Likewise, Debt Service coverage ratio stood strong at 44.64 times for FY2023 as against 37.98 times in FY2022.

Total outside liabilities to total net worth (TOL/TNW) stood at 0.22 times as on FY2023 vis-à-vis 0.42 times as on FY2022. Debt-EBITA stood at 0.01 times as on 31st March 2023 as against 0.58 times as on 31st March 2022. The Net Cash Accruals to Total debt stood at 67.15 times as on FY2023 and 1.27 times for FY2022. The financial risk profile of the company is expected to improve and remain comfortable in medium terms.

Weaknesses

Working capital operations

Company has high working capital requirements as evident from gross current assets (GCA) of 170 days in FY2023 as compared to 217 days in FY2022. High Working capital requirement is on account of high receivable days. Inventory days stood at 28 days in FY 23 (37 days in FY22). Debtor days stood at 141 days in FY2023 as against 154 days in FY 22. Fund based working capital limits are utilized at ~1 per cent during the last six months ended Oct 23.

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 Sensitivities

Improvement in the Operating income and margin
Improvement in working capital cycle and liquidity

All Covenants

None

Liquidity Position Strong

Company has strong liquidity marked by net cash accruals to its maturing debt obligations, current ratio and cushion available in working capital limits. Company generated cash accruals of Rs. 17.07 crore for FY2023 as against obligations of Rs. 0.21 crore for the same period. Current Ratio stood at 4.23 times as on 31 March 2023 as against 2.78 times in the previous year. Fund based working capital limits are utilized at ~1 per cent during the last six months ended October 23 leaving additional cushion in working capital limits to meet

contingencies. Cash and Bank Balances of company stood at Rs 1.02 crore. In addition to this company has unencumbered fixed deposits of Rs ~41 crore as on March 31, 2023.

Outlook:Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 113.83 | 96.89 |
| PAT | Rs. Cr. | 16.22 | 15.56 |
| PAT Margin | (%) | 14.25 | 16.06 |
| Total Debt/Tangible Net Worth | Times | 0.00 | 0.14 |
| PBDIT/Interest | Times | 132.16 | 89.72 |

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>
- 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, 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 |
|-------------|--------------------------------|------------|-----------------|--|
| 19 Sep 2022 | Cash Credit | Long Term | 6.50 | ACUITE BBB Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 6.00 | ACUITE A3+ (Reaffirmed) |
| 28 Jun 2021 | Letter of Credit | Short Term | 6.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Cash Credit | Long Term | 6.50 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| 12 Jun 2020 | Letter of Credit | Short Term | 6.00 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 6.50 | ACUITE BBB- Stable (Assigned) |
| 30 Jan 2020 | Letter of Credit | Short Term | 6.00 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 6.50 | 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 |
|---------------------|----------------|------------------|------------------|----------------|----------------|------------------|-------------------|----------------------------------|
| Kotak Mahindra Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 6.50 | ACUITE BBB Stable Reaffirmed |
| Kotak Mahindra Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 6.00 | ACUITE A3+ Reaffirmed |

Contacts

| Analytical | Rating Desk |
|---|--|
| Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |
| Himanshu Mehta Senior Analyst-Rating Operations Tel: 022-49294065 himanshu.mehta@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.

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