

DECEMBER 27, 2016

**CARE ASSIGNS 'CARE BBB (SO); POSITIVE AND CARE A3+ RATINGS TO BANK FACILITIES OF
HARSHA LINERS PRIVATE LIMITED**

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	6.45 (reduced from 10)	CARE BBB (SO);Positive (Triple B [Structured Obligation]) (Outlook:Positive)	Final rating assigned
Short term Bank Facilities	0.50	CARE A3+ (SO) (A Three Plus[Structured Obligation])	Assigned
Total Facilities	6.95 (Rupees Six crore and ninety five lakh only)		

[@] backed by the unconditional and irrevocable corporate guarantee extended by Kusalava International Limited (rated 'CARE BBB; Positive/CARE A3+').

Rating Rationale

The ratings assigned to the bank facilities of Harsha Liners Private Limited (HLPL) is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Kusalava International Limited (rated 'CARE BBB; Positive/CARE A3+').

The ratings assigned to the bank facilities of Kusalava International Limited continues to derive strength from established track record of the company in the cylinder liner business, experienced and resourceful promoters, strong in-house manufacturing facility, diversified customer base and long term association with reputed clients. The ratings further include improvement in the total operating income and profitability margins during FY16 (refers to the period April 01 to March 31)

The ratings, however, are constrained by moderate overall gearing, corporate guarantee extended to its group concerns, susceptibility of margins to volatility in raw material prices, exposure to foreign currency fluctuation risk and working capital intensive nature of operations.

The ability of KIL to scale up its operations, while maintaining its profitability margins and managing the working capital efficiently are the key rating sensitivities.

Outlook: Positive

CARE believes that the Kusalava International Limited will continue to benefit over the medium term from its growing scale of operations leading to better cash accruals and improvement in liquidity profile resulting in favourable capital structure and debt coverage indicators. The outlook, however, may be revised to 'Stable' in case of deterioration in capital structure owing to increase in working capital requirements and profitability margins being susceptible due to volatile raw material prices, leading to weakening of the financial risk profile.

Background

HLPL was established by the Andhra Pradesh-based Kusalava group in the year 2010. It is promoted by Mr Ramakrishna Prasad. The company is engaged in manufacturing cylinder liners. It is subsidiary company of Kusalava International Limited.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

In FY16 (refers to the period April 1 to March 31), HLPL reported a total operating income of Rs.20.96 crore (Rs.14.85 in FY15) and PAT of Rs.0.34 crore against Net loss of Rs.0.99 in FY15

About Guarantor:

Kusalava International Limited (KIL) was incorporated in April 1964 as a private limited company and later in 1996 it was reconstituted as public limited company. KIL is promoted by Mr Chukkapali Kusalava. KIL is one of the leading manufacturers of critical engine parts, supplying to major Original Equipment Manufacturers (OEM) in India, United States of America SA & Europe. The company is engaged in manufacturing of products such as cylinder liners, aluminum block liners, piston rings, valve seats and guides, centrifugal castings, scraps and pallets, etc. It also has presence in the replacement market, its products are offered under the brand name 'Tiger Power'. Furthermore, Kusalava has partnered with Darton International Inc (USA-based automotive equipment manufacturer) to offer special material for Drag Racing. The company has diversified customer base with presence across segments including two wheelers, four wheelers, commercial vehicles, replacement market and exports.

KIL belongs to Vijayawada, Andhra Pradesh-based Kusalava Group established in 1964, which is into diversified business like trading of 2 and 4 wheelers (Kusalava Motors P Ltd), financing automobiles (Kusalava Finance), trading automobile spares (Bharat Automobiles), manufacturing of cylinder liners (Harsha Liners Private Limited), trading of batteries under the brand name 'Poweron' (Kusalva Batteries P Ltd) developing housing, apartments and shopping malls (Kusalava Realty), developing products using biotechnology for agriculture, marine industry and humans (Sneha Biotech), trading automotive components in USA (Kusalava International Inc).

In FY16, KIL reported a total operating income of Rs.200.90 crore (Rs.185.30 crore in FY15) and a PAT of Rs.7.94 crore (Rs.4.95 crore in FY15). During H1FY17(refers to the period April 01 to September 30), KIL reported PAT of Rs.4.60 crore on total operating income of Rs.103.72 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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