KSH International Private Limited

November 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	18.82 (Enhanced from 15.82)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	85.00 (Enhanced from 80.00)	CARE A-; Stable / CARE A2 (Single A Minus ; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	4.00 (Reduced from 9.00)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**107.82 (Rs. One Hundred Seven Crore and Eighty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings on the bank facilities of KSH International Private Limited (KSH) continues to factor its experienced promoter group with established track record of operations, which has led to long association with established and diversified customer base across various geographies and its healthy market position in the Continuously Transposed Cable (CTC) and Paper Insulated Copper Conductors (PICC) in India. Further, the company continues to have comfortable capital structure and debt coverage metrics.

The strengths of KSH are partly offset by its moderate scale of operations in the copper winding wires industry, end user concentration and modest profitability. Further, the company is relatively new entrant in the round wire. With rise in the copper prices and moderate turnover growth expectations, KSH may see incremental working capital requirements and hence timely enhancement in working capital limits will remain key monitorable.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained improvement in scale of operations with regards to volumes fabricated improving to atleast 20,000 MT along with sustained improvement in total debt to gross cash accrual (TDGCA) to 2.50x.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Sustained decline in scale of operations i.e. fabrication volumes falling below 12,000 tonnes
- Sustained pressure on profitability on account of losses in Round Wire division thus impacting return on capital employed
- Any large debt funded programme undertaken going forward either to fund capital expenditure (capex) or working capital requirements leading to deterioration in overall gearing above 1.00x
- In case of bank(s) exercising their right of cancellation of undrawn bank loan facilities in future on account of rating trigger events as mentioned in the sanction letters leading to deterioration in liquidity of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group with healthy track record of operations: The promoters of KSH have been in the copper conductors business for about five decades. Mr Kushal Hegde, the Chairman has an experience of around five decades in the manufacturing and infrastructure sectors. The second-generation entrepreneurs of the Hegde family, Mr. Rajesh Hegde and Mr. Rohit Hegde have more than 17 years of industry experience and are ably supported by a team of second tier management with requisite experience as well as technical competence. The company over its four decades of existence, has built a sustainable business with significant presence in the copper winding wire industry, particularly CTC and PICC in India and export markets.

Long association with established and diversified customer base with healthy market position in CTC and PICC segment: The company continues to have healthy market position in Bare and Insulated Rectangular and Transposed Cables in India. KSH has an established customer base across the globe, with low counterparty risk. It is amongst the top suppliers of CTC and PICC for

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

application in the 765KV transformers by Power Grid Corporation of India Limited (CARE AAA; Stable/CAREA1+, reaffirmed on July 5, 2021). Top 10 customers of the company continue to generate around 60% of the net sales which reflects diversified customer base, considering business to business marketing of KSH.

Comfortable capital structure and debt coverage metrics: The company continues to have comfortable capital structure with networth of Rs.141.14 (126.57) crore as on March 31, 2021 (2020) and overall gearing of 0.61x (0.61x). The total debt of Rs.85.84 crore as on March 31, 2021 includes bill discounted debt of Rs.29.37 crore which is without recourse to the KSH. CARE derives comfort from the non-recourse nature of the bill discounting. The company is undertaking debt funded capex of Rs.12 crore. For the concerned capex, KSH has received term loan sanction of Rs.9.00 crore. Despite, the debt funded capex and increasing working capital debt to fund increasing turnover from rising copper prices and expected rise in volumes, the capital structure is expected to remain comfortable.
The debt coverage metrics have been partly moderated over the last few years from adverse impact on profitability due to losses suffered in Round Wire Division. Debt coverage metrics continues to remain comfortable with PBILDT interest coverage of 4.33x (3.85x) in FY21 (FY20). Though, TDGCA[2] moderated to 4.49x in FY21 from 3.43x in FY20, it is expected to improve again with expected rise in gross cash accruals in FY22 and over the medium term.

Key Rating Weaknesses
Moderate scale of operations: The company's scale of operation continues to remain moderate with total operating income (TOI) of Rs.474.39 (487.81) crore in FY21 (FY20). The company faced 10.5% decline in volumes sold Y-o-Y in FY21 on account of operational constraints due to COVID-19 lockdown. This was mitigated by rise in copper prices by the end of the fiscal year. Going forward, the company is expected to revert to its historical level of operations in terms of volumes partly supported by gradual ramp up in Round Wire division. KSH continues to have healthy market position in CTC and PICC segment, however, is relatively new entrant in Round Wire Division and hence customer acquisition specific to Round Wire division may be gradual.

End user concentration: The products manufactured by KSH find applications in power industry. This exposes the company's operations towards any delays in execution of power projects and government policies regarding power sector. The foray in the Round Wire product segment by KSH will allow the company to partly diversify its end user profile considering it will target automobile sector.

Modest profitability: KSH either undertakes end to end work i.e. outright sales or on jobwork basis. Further, with fixed fabrication rate per tonne, the copper prices are inversely proportional to the profitability margins. Over the last two fiscals through FY21, the profitability per tonne was impacted by recently established Round Wire division which has been in losses due to its low capacity utilization. The PBILDT margin subdued slightly from 6.54% in FY20 to 6.18% in FY21. Profitability per tonne is expected to revert to historical levels considering the ramp up in Round Wire Division and estimated achievability of breakeven in FY22. While PBILDT margins are expected to remain modest partially due to rise in copper prices going forward.

Liquidity: Adequate
The liquidity position of the company is characterized by healthy cushion in accruals vis-à-vis repayment obligations. Gross cash accrual (GCA) was Rs.19.12 crore and is expected to increase on account estimated break even in round wire division. Against this, the repayment obligations to the tune of approximately Rs.6-7 crore each over FY22 and FY23. Cash flow from operations (CFO) has been fluctuating on account of COVID related working capital disruption in FY20 ending while in FY21 ending, there was significant rise in orders which led to incremental working capital requirements. CFO in FY21 was Rs.5.80 crore slightly compared to Rs.6.97 crore in FY20. Free cash and cash equivalent was modest at Rs.0.02 crore as on August 31, 2021. Furthermore, the average of maximum bank limit utilization over the last 12 months through July 2021 was moderately high at 82.91%. With the rise in copper prices and expected moderate rise in volumes, timely working capital limits enhancement will be critical to support incremental working capital requirements. With overall gearing of 0.61x as on March 31, 2021, the company has significant headroom to raise incremental debt if required.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments

[2] *TDGCA ratio includes bill discounted with the bank in total debt*

Policy on default recognition
Financial Ratios – Non financial Sector
Manufacturing Companies

About the Company

Incorporated in July 1979 and based in Pune, KSH is promoted by Mr. Kushal S Hegde. KSH international is amongst leading manufacturer of CTC and PICC in India and supplying its products both locally and internationally to global large equipment OEM's in regions like USA, Middle East, Bangladesh, etc. The company has two plants with a total manufacturing capacity for PICC, CTC and Round Wire of 23,000 MTPA.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	5MFY22 (UA)
Total operating income	487.81	474.39	NA
PBILDT	31.90	29.29	
PAT	12.72	14.51	
Overall gearing (times)*	0.61	0.61	
Interest coverage (times)	3.85	4.33	

A: Audited; UA: Un-Audited

**The overall gearing factors in bills which have been discounted with the bank. It should be noted that the bills discounted are without recourse to KSH.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	20.00	CARE A-; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	Sept-2027	9.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	March-2024	9.82	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	4.00	CARE A2
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	65.00	CARE A-; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	20.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (08-Oct-20)	1)CARE A-; Stable / CARE A2 (26-Sep-19)	1)CARE A-; Stable (24-Sep-18)

2	Fund-based - LT-Term Loan	LT*	18.82	CARE A-; Stable	-	1)CARE A-; Stable (08-Oct-20)	1)CARE A-; Stable (26-Sep-19)	1)CARE A-; Stable (24-Sep-18)
3	Non-fund-based - ST-BG/LC	ST*	4.00	CARE A2	-	1)CARE A2 (08-Oct-20)	1)CARE A2 (26-Sep-19)	1)CARE A2 (24-Sep-18)
4	Non-fund-based - ST-Forward Contract	ST*	-	-	-	-	-	1)Withdrawn (24-Sep-18)
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	65.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (08-Oct-20)	1)CARE A-; Stable / CARE A2 (26-Sep-19)	1)CARE A-; Stable / CARE A2 (24-Sep-18)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
a. Debt service coverage ratio – ICICI Bank Ltd & Federal Bank Ltd	Average DSCR should not fall below 1.33 times
b. Total debt/Net cash accruals - ICICI Bank Ltd	Total debt/net cash accruals not to exceed 7 times

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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