Kolors India Private Limited

September 07, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	66.46	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Total Bank Facilities	**66.46 (₹ Sixty-Six Crore and Forty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kolors India Private Limited (KIPL) derives strength from the extensive experience of promoters in electrical switches business, well established market position with brand name Kolors backed by strong distribution network, moderately diversified product mix and improvement in operating performance of the company characterised by uptick in the revenues resulting into higher cash accruals over the past three years on the back of higher demand for such products. Furthermore, the ratings derive strength from moderate financial risk profile characterised by sizeable networth base, moderate gearing levels and debt coverage indicators.

The rating strengths are, however, tempered by KIPL's moderate scale of operations and profit margins susceptible to fluctuations in raw material prices, working capital intensive nature of business as demonstrated by elongated operating cycle and prevailing intense competition due to fragmented nature of industry.

Rating Sensitivities

Positive Factors

- Sustained improvement in scale of operations to over 350 crores and operating profitability margins to around 17% leading to higher gross cash accrual on a sustained basis
- Improvement in the operating cycle to below 150 days

Negative Factors

- Decline in PBILDT margin below 10% on sustained basis
- Elongation of operating cycle to over 215 days thereby impacting liquidity leading to higher working capital utilisation
- Increase in overall gearing beyond 1.50 times on a sustained basis

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoters & established track record:

Kolors India Private Limited (KIPL) was established by Biyani Brothers having experience of more than four decades. Prior to this, the Biyani Brothers commenced business as a small trading company in 1970 that traded electrical wiring accessories in India. Later, the promoters incorporated a company named as Cosmo Electro Industries Private Limited in September 2004 and recently the company has been renamed as Kolors India Pvt Ltd. The company is into manufacturing of electrical switches and related accessories, wires, cables along with LED lighting products. The company gradually started manufacturing electrical switches and related accessories along with LED lighting products. Mr. Mahesh Biyani (Managing Director) has been managing finance and administration of the company since incorporation and commands significant industry experience. Other directors of the company – Mr. Umesh Biyani (looks after marketing) and Mr. Mukesh Biyani (looks after Production) are actively involved in the company operations and command experience of more than two decades in various industries.

Moderately Diversified product Mix:

On a combined basis, the entity offers more than 5,000 products under various categories. The portfolio includes products like switches, sockets, MCBs, plug tops, lamp holders, doorbells, distribution boxes, LED Lighting products, home automation and mounting box and other related accessories. Around 76% of the total revenue from switches and accessories, 8% each from wires & cables and 16% is from lighting segment in FY22. Thus, the entity on a combined basis has a moderately diversified product mix and products are available at various price points.

Established market position with brand name 'Kolors' backed by a strong distribution network

The entity manufactures and market the product in the brand name "Kolors" which is a well-known brand in Eastern India and is available across various parts of the country. The entity has a strong presence with four operational manufacturing plants complimented by around 11 Depots, 5,000 plus channel partners, more than 1,500 workforce and more than 5,000 products. The entity has achieved a PAN India presence making product accessible to a sizeable audience. The widely spread network ensures a strong and continuous order position. The entity derives around 62% of its revenues from Eastern India, followed by around 20% from Western region, around 12% from Southern region and 6% from Northern India.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Growth in total operating income coupled with steady operating profit margins leading to higher cash accruals
On a combined basis, the entity has been able to consistently grow its total operating income through addition of new products as well as increasing its distribution network. During the past three years, the total operating income of the entity grew at CAGR of around 22% to Rs.247.02 crore in FY22 from Rs.165.72 crore in FY20; however, on y-o-y the total operating income growth in FY22 was~30%. The sales growth was evident across various product segment. On combined basis, for the year ending March 31, 2022, the PBILDT margin of the company was steady at 15.48%. PAT margins remained steady at 8.28% in FY22. As a result, the entity has been able to report higher gross cash accruals backed by volume growth. During Q1FY23 (refers to the period April 01, 2022 to June 30, 2022) the entity had reported total operating income of Rs.60.85 crore

Moderate financial risk profile
The financial risk profile of the combined entity remained moderate, characterised by term loans, unsecured loans from promoters, bank borrowings and acceptances. The combined entity capital structure stood moderate with an overall gearing of FY22 at 0.73 times as compared to 0.83 times in FY21 due to accretion in profits. Networth stood at Rs. 99.89 crores in FY22 as compared to Rs. 79.86 crores in FY21 due to accretion of profits. The debt coverage indicators have been moderate with total debt to GCA is at 2.77 times in FY22 as compared to 2.75 times in FY21 owing to higher cash accruals. Further, its PBILDT interest coverage improved to 7.58 times in FY22 as compared to 6.40x in FY21 owing to reduction in total debt and increase in revenues.

Key rating Weakness
Moderate scale of operation with operating margin susceptible to volatile raw material prices:
Despite growth in scale of operations, the entity continues to be moderate player in the industry which is dominated by multinationals as well as large domestic players in the industry. Furthermore, the major raw materials are polycarbonate and copper/brass prices of which are volatile in nature. The operating margins have been volatile as it remained in the range of 15.18% to 19.64% over the last three years. The moderate size of the entity in the industry may result in time lag in passing on any increase in the input prices and thus put pressure on its profit margins. Nonetheless, the entity has been able to maintain moderate PBILDT margins in the range of around 15%.

Working capital intensity demonstrated by elongated operation cycle due to high inventory levels
The operations are working capital intensive in nature as reflected by net working capital intensity (NWC/TOI) of 50.11% in FY22 (PY-50.35%). The working capital intensity remains significantly high due to the elongated receivables and high inventory levels. The average maximum working capital utilisation of combined entities has also been moderate in last twelve months ended May 2022 at around 82.61%. During FY22, the business operations of combined entities are marked by elongated operating cycle of 172 days (PY-199 days), mainly due to elongated inventory period of 129 days (PY-156 days) and collection period of 120 days (PY-135 days). Gross current asset days of combined entities stood at 259 days (PY-279 days).

Stiff competition due to fragmented nature of the industry with presence of many unorganized players:
The electrical market is highly fragmented with the presence of a large number of unorganized players in India constraining the pricing power of organized sector players. There is high competition within the industry due to low entry barriers. Apart from unorganized sector, the group also faces competition from organized sector players. Also, the ever-increasing demand for high quality LED lights has encouraged manufacturers in India to enter into the business of manufacturing of lightings, fittings and allied components. The company faces intense competition due to the presence of a large number of organized & unorganized players in the segment which determines the negotiating power and the pricing ability of the company. Although the company benefits from its strong brand presence in market, and wide distribution network, it is always exposed to intense competition.

Liquidity position: Adequate
On combined basis entity has adequate liquidity marked by adequate gross cash accruals of Rs. 26.35 crores in FY22 as compared to Rs. 23.98 crores in FY21, viz-a-viz moderate term loan repayment obligations. Further, the combined entitys' utilization of fund-based limits remains high marked by average maximum utilization of ~82.61% for last twelve months ended May-2022. KIPL average maximum remains at 94.49% while Biyani & Sons remains at 72.73%. The average utilisation of Biyani & sons for the last twelve month ended May-2022 is around 56.49%. The working capital utilisation increased owing to growth in scale and higher raw material prices. The entity has moderate debt repayments lined up over the medium term, which along with the limited planned capex, is expected to be comfortably met by the accruals.

Analytical approach: Combined approach
CARE has combined the risk profile of Kolors India Private Limited (KIPL) and Biyani & Sons to arrive at credit rating. The profiles are combined as both the entities are having operational linkages as the products in both the entities are complimentary in nature and decision with respect to sales, marketing and purchases is centralised. Besides both the entities use the same distribution network. Further, there is financial linkages in the form of guarantees issued to lenders by KIPL for bank facilities of the other entity. Moreover, there is common shareholding as Mr. Mahesh Biyani (prop of Biyani & Sons) and Managing Director, KIPL, along with his family hold shareholding in KIPL.

Applicable criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Consolidation

About the Company
Kolors India Private Limited (KIPL) was incorporated as a private limited company in Sept 2004. Earlier company's name was Cosmo Electro Industries Private Limited which has been changed to Kolors India Private Limited in the year 2022. Its manufacturing facilities are in Baddi, Himachal Pradesh, and Haridwar, Uttarakhand. Today, KIPL manufactures switches, sockets accessories, MCBs, LED lighting products, plug tops, wires & cables, lamp holders, doorbells, distribution boxes, home automation and mounting boxes. KIPL sells its products in the domestic market under the brand Kolors. Currently, KIPL is being managed by Mr. Mahesh Biyani, Managing Director, who has around more than four decades of experience. KIPL's other group entity viz. Biyani & Sons is engaged in manufacturing of wires under the same brand name i.e "Kolors".

KIPL and Biyani & Sons - Combined financials

Brief Financials* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Prov.)
Total operating income	189.71	247.02	60.85
PBILDT	35.31	38.23	NA
PAT	17.78	20.46	NA
Overall gearing (times)	0.83	0.73	NA
Interest coverage (times)	6.57	7.58	NA

A: Audited, Prov.- Provisional, NA- Not available

KIPL - (Standalone)

Brief Financials* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Prov.)
Total operating income	170.56	227.40	60.20
PBILDT	32.98	36.39	NA
PAT	16.76	19.81	NA
Overall gearing (times)	0.58	0.55	NA
Interest coverage (times)	7.60	8.79	NA

A: Audited, Prov.- Provisional, NA- Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	24.74	CARE BBB; Stable
Fund-based - LT-Bank Overdraft		-	-	-	20.00	CARE BBB; Stable
Fund-based - LT-Cash Credit		-	-	-	21.72	CARE BBB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	24.74	CARE BBB; Stable				
2	Fund-based - LT-Bank Overdraft	LT	20.00	CARE BBB; Stable				
3	Fund-based - LT-Cash Credit	LT	21.72	CARE BBB; Stable				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Penalty	Delay/ non-submission of stock/book debt statements, QIS statements within the stipulated time-period penal charges of 1% p.a. from due date till submission of such statement, subject to minimum of one month
B. Non-financial covenants	
I. Change in ownership / Management	Prior permission of the bank in writing shall be obtained in case any change is effected in the ownership pattern/ management structure of the borrowing entity. The bank reserves the right to recall the advance in case of any in ownership pattern/ reconstitution/ management structure is effected without obtaining bank's prior approval in writing.
II. Pledging of shares	The borrower/ promoter shall take prior permission of the bank before pledging their share of the borrower company for raising finance. While seeking permission in such cases, particulars relating to purpose, amount, ROI, terms & condition, source of repayment etc must be furnished to the bank.

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based-Long Term	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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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