Kolors India Private Limited

September 26, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	70.95 (Enhanced from 66.46)	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Kolors India Private Limited (KIPL) continue to derive 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 revenues although moderation in PBILDT margins in FY23 (refers to period April 31, 2022 to March 31, 2023). 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: Factors likely to lead to rating actions

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

Analytical approach: Standalone approach

CARE has changed the approach to standalone from combined. As financial linkages between KIPL and Biyani & Sons does not exist. Furthermore, corporate guarantee issued by KIPL for the bank facilities of Biyani & Sons cease to exist.

Outlook: Stable

Stable outlook reflects that the rated company is likely to maintain its growth momentum as envisaged which shall enable it to maintain the envisaged operating performance over the near to medium term.

Detailed description of the key rating drivers

Key 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:

KIPL 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. During FY23, ~77% of the total revenue from switches and accessories and ~23% is from lighting segment.

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

KIPL 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

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

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. KIPL derives around 61% of its revenues from Eastern India, followed by around 19% from Western region, around 13% from Southern region and 6% from Northern India.

Growth in total operating income and above average PBILDT margins
KIPL 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 four years, the total operating income of the entity grew at CAGR of around 20% to Rs.268.39 crore in FY23 from Rs.129.65 crore in FY19; however, on y-o-y the total operating income growth in FY23 was~18%. The sales growth was evident across various product segment. PBILDT margin deteriorated by 243 bps on y-o-y basis and stood at 13.57% in FY23 as compared to 16.00% in FY22 owing to increase in employee cost coupled with selling expenses. Nonetheless PBILDT margins stood above average. Furthermore, achieving the envisaged operating margins remains key rating monitorable for the company.

Moderate financial risk profile
The financial risk profile of the company remained moderate, characterised by term loans, unsecured loans from promoters, bank borrowings. KIPL's capital structure stood moderately comfortable with an overall gearing at 0.48 times in FY23 as compared to 0.55 times due to accretion in profits and reduction in total debts. As on March 31, 2023, networth stood at Rs. 116.50 crores (PY-Rs. 97.70crores). Debt coverage indicators have remained at moderate levels with total debt to GCA (TD/GCA) at 2.24x in FY23 as compared to 2.10x in FY22. Further, its interest coverage ratio marginally deteriorated to 6.43x in FY23 as compared to 7.45x in FY22 owing to increase in interest expense.

Key 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 which are volatile in nature. The operating margins have been volatile as it remained in the range of 13.57% 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.

Working capital intensity demonstrated by elongated operation cycle due to high inventory levels
The operations are working capital intensive in nature as reflected by working capital cycle. The working capital intensity remains significantly high due to the elongated receivables and high inventory levels. During FY23, the business operations of KIPL are marked by elongated operating cycle of 191 days (PY-186 days), mainly due to elongated average inventory period of 123 days (PY-133 days) and average collection period of 126 days (PY-120 days). Average creditor period stood at 58 days (PY-68 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
KIPL has adequate liquidity marked by adequate gross cash accruals against the moderate term loan repayment obligations of Rs. 6.50 crores to Rs. 8 crores in FY24 to FY26. The company has moderate debt repayments lined up over the medium term, which along with the limited planned capex of Rs. 10.50 crores which is expected to be operational by Nov-23**.** The company has negligible free cash and bank balance. Further, utilization of working capital limits remains high marked by average utilization of ~84% for last twelve months ended Jul-2023. During FY23, net Cash flow from operations stood at Rs. 16.96 crores (PY-7.43 crores). As on March 2023, current ratio stood at 1.82x (PY-1.75) and quick ratio stood at 1.13x (1.06x).

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

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About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

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. 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".

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	4MFY24 (UA)
Total operating income	227.40	268.39	86.69
PBILDT	36.39	36.43	12.60
PAT	19.81	19.19	6.50
Overall gearing (times)	0.55	0.48	0.50
Interest coverage (times)	8.79	7.68	6.60

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: 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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	30.00	CARE BBB; Stable
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BBB; Stable
Fund-based-Long Term		-	-	-	15.95	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 2023-2024	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
1	Fund-based-Long Term	LT	15.95	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Sep-22)	-	-
2	Fund-based - LT-Bank Overdraft	LT	30.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Sep-22)	-	-
3	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Sep-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the 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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