Kaizen Switchgear Products

February 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	11.54 (Reduced from 13.47)	CARE BBB; Positive	Reaffirmed
Short-term bank facilities	35.50	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at ratings of Kaizen Switchgear Products (KSP), CARE Ratings Limited (CARE Ratings) has taken a combined view of KSP and Electrical Controls and Systems (ECS), as they operate under common management platform and are a part of the same group called "Epoxy House". They are together referred as the Epoxy group.

Ratings assigned to bank facilities of Epoxy group continue to derive strength from partners' vast experience and its established track record of operations in manufacturing electrical equipment and its components, its comfortable capital structure, and debt coverage indicators backed by adequate liquidity. Ratings further take cognisance of continuous growth in the group's scale of operations along with its profitability and diversified and reputed clientele. However, ratings continue to remain constrained considering constitution of the group's entities as a partnership firm, profitability susceptible to volatile raw material prices and exchange rate fluctuations and working capital intensive operations. Ratings also consider its on-going expansion and diversification capex.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in total operating income (TOI) beyond ₹450 crore and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of more than 12% on a sustained basis.
- Improvement in operating cycle to less than 100 days on a sustained basis.

Negative factors

- Significant decline in TOI and decline in PBILDT margin below 10% on a sustained basis along with moderation in debt coverage indicators.
- Withdrawal of capital by the partners or availment of new debt, leading to deterioration of capital structure marked by overall gearing above unity

Analytical approach: Combined

CARE Ratings has considered combined approach as KSP and ECS operate under common management platform and are a part of same group called "Epoxy House Group". They are together referred as the Epoxy group and are engaged in similar line of business and exhibit cashflow fungibility.

Outlook: Positive

The continuation of positive outlook is considering envisaged growth in TOI and improvement in profitability in the medium term on back of improved demand of transformers domestically and for international markets and commissioning of enhanced capacity in ECS. The outlook may be revised to 'Stable' in case of lower-than-envisaged growth in TOI or profitability or lower net worth on conversion of firm to company.

Detailed description of key rating drivers:

Key strengths

Experienced partners with an established operational track record in the electrical component manufacturing industry

Set up in 1973 by Dalsukh Patel, the Epoxy group is engaged in manufacturing electrical equipment (majorly into bushing, insulators and coils, current transformer, voltage transformer, cast resin transformers and others) for reputed clientele in the domestic and export markets. The group is currently managed by the second and third generation, Kirit Patel (Chairman and Managing partner), who has over three and half decades of experience in managing overall businesses of the 'Epoxy Group'. He

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

is supported by his brothers, Amit Patel, Prakash Patel, and Arvind Patel and qualified professionals. The group's manufacturing facilities are accredited by international organisations including ABB, and Siemens among others. The group has also availed certification such as ISO 9001:2015, ISO 14001:2015, ISO 45001 among others, which aids it in marketing its products in the developed markets. The group has also ventured into manufacturing pad-mounting transformer in current year.

Growing scale of operations and profitability

In FY24, Epoxy group's TOI remained at ₹329.72 crore against ₹309.66 crore in FY23. In 9MFY25, TOI improved to ₹390.14 crore considering higher domestic and export sales. Export sales increased owing to sale of new product, pad mounting transformers. Profitability of epoxy group has remained moderate in FY24 marked by PBILDT margin of 10.93% (FY23: 12.60%) and profit after tax (PAT) margin of 3.92% (FY23: 6.29%). Slight moderation is considering interest paid to partners' capital in FY24. Operating margins improved to 18.66% in 9MFY25 mainly due to sale of high-margin product, pad mounting transformers. Consequently, PAT margins also improved to 11.47%.

Comfortable capital structure and debt coverage indicators

Epoxy group's capital structure remained comfortable, marked by an overall gearing of 0.60x as on March 31, 2024 (FY23: 0.67). Partner's capital remained comfortable at ₹153.57 crore as on March 31, 2024 (FY23: ₹144.19 crore). However, the firms are in process of conversion into companies, and hence, maintenance of net worth on conversion will be a key rating monitorable. Due to increasing scale of operations and on-going capex, total debt comprising of term debt and working capital utilisation increased in 9MFY25, however with accretion of profits to partners' capital, overall gearing continues to remain comfortable at 0.63x as on December 31, 2024. Debt coverage indicators also remained comfortable as marked by total debt to gross cash accruals (TDGCA) of 3.54x (FY23: 3.12x) and PBILDT interest coverage of 4.12x as on March 31, 2024 (FY23: 5.27x). As on December 31, 2024, due to improved operational performance, TDGCA and interest coverage remained at 1.71x and 9.24x, respectively.

Long-standing relations with diversified and reputed clientele

The group has an established market position in electrical equipment manufacturing industry backed by its strong customer base. The Group's clientele includes some of the leading industry players such as ABB India Limited, Schneider Electric India Ltd, Stelmec Limited, BHEL (rated 'CARE AA-; Stable/ CARE A1+'), Larsen and Toubro Ltd, Siemens Ltd and Lucy Electric among others. Healthy relationships with customers and addition of clients has contributed to the group's revenue growth. The counter-party credit risk also remains low because of reputed clientele. Over the years, the customer profile of the group remained fairly diversified with top five customers contributing ~43% of TOI For FY24 (39% in FY23) for ECS and 62% of TOI for FY24 for KSP (52% in FY23).

Key weaknesses

Constitution as a partnership firm

The credit risk profile of Epoxy group is constrained by constitution of its entities as a partnership firm, wherein there is an inherent risk of withdrawal of the capital. In FY24, the partners have withdrawn a part of profits, ₹3.56 crore (₹14.63 crore withdrawal in FY23). However, both entities are under process for conversion from firm to company.

Profitability susceptible to raw material price volatility

The key raw materials for Epoxy group are copper, aluminium, laminations, CRGO and other moulding material. Prices of these metals are linked with international metal prices that have exhibited a volatile trend in the past. However, raw material procurement for Epoxy group is handled by the key partner, Kirit Patel, who has extensive experience of over three and half decades in the business. Moreover, raw material procurement is majorly order backed and has claimed price escalation from its customers in the past in case of steep increase of copper prices. These factors and expertise of management in handling RM procurement act as mitigants to a certain extent against the volatile raw material prices.

Working capital intensive nature of operations and profitability susceptible to exchange rate fluctuations

The group's operations are working capital intensive in nature marked by elongated operating cycle of 148 days for FY24 (144 days in FY23). The working capital cycle remains elongated since the group provides high credit of ~120 days to its customers and raw material procurement (primarily copper) is on spot payment basis.

In FY24, Epoxy group earned ~54% of its revenue from exports (FY23:59%), which exposes its profitability to volatility in exchange rates, considering imports account only for ~5-10% of its raw material requirement. While the balance exposure is mitigated to a certain extent through forward contracts and availing term loans in foreign currency, the absence of defined hedging policy exposes the group's profitability to exchange rate fluctuations.

Implementation and stabilisation risk of debt-funded capex

Group is under-going expansion and diversification debt-funded capex. Company has diversified its product portfolio and commenced operations pertaining to pad mounting transformer in FY25. The company has expanded its facility pertaining to current transformer and voltage transformer. Total cost estimated for capex is ~₹43 crore to be funded through term debt of ₹34 crore and balance through internal accruals. Of the total capex, the company had incurred ~₹26 crore till December 2024. CARE Ratings observes, capex is expected to be completed by Q1FY26. ECS has been sanctioned ₹10 crore term debt for the ground-mounted solar project of 3.25 MW to be disbursed by March-end. It is expected that project will be commissioned by July 2025.

Liquidity: Adequate

Epoxy group had adequate liquidity marked by GCA of ₹26.16 crore (FY23: ₹30.91 crore) against term debt repayment obligations of ₹11-12 crore for FY25. The group's scheduled annual debt repayments are expected to be in the range of ₹11-17 crore for FY25-FY27, which are to be met out of its GCA of ₹52-62 crore for projected period. The group's average utilisation of its fund-based working capital limits in the last six months ending December 2024 remained moderate at ~73%. Epoxy group has total sanctioned working capital limits of ₹75.00 crore to meet its working capital requirements following continuous growth in scale of operations. Further enhancement of ₹15 crore in working capital are proposed by the group to support its increasing scale of operations.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Electrical equipment	Other electrical equipment

Vadodara (Gujarat)-based KSP was formed in 1995 as a partnership firm with an objective to manufacture electrical components which find applications in transformers and switchgears. It is headed by Kirit D. Patel, Amit G. Patel, Anuj G. Patel and Prakash G. Patel. KSP's product portfolio consists of Current Transformers & Potential Transformers (CT/PT), Insulators, coils and Bushings up to 66kv systems. KSP is a part of 'Epoxy House' group which has established its presence in manufacturing electrical equipment since last five decades through its other three entities, namely, Electrical Controls & Systems (ECS: rated 'CARE BBB; Positive/CARE A3+'), Baroda Bushings & Insulators LLP and Baroda Moulds & Dies. The group also own a solar firm named Green brilliance Renewable Energy LLP.

	Combined (Epoxy Group)			Standalone (KSP)		
Brief Financials (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	9MFY25 (Prov.)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (Prov.)
Total operating income	309.66	329.72	390.14	145.03	123.73	107.87
PBILDT	39.01	36.05	72.81	21.02	12.08	8.41
PAT	19.47	12.94	44.76	11.62	5.65	3.44
Overall gearing (times)	0.67	0.60	0.63	0.60	0.53	0.53
Interest coverage (times)	5.27	4.12	9.24	5.91	3.17	2.96

A: Audited, UA: Unaudited, P: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	31-03-2029	11.54	CARE BBB; Positive
Fund-based - ST-EPC/PSC		-	-	-	30.00	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	2.00	CARE A3+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	3.50	CARE A3+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - ST-EPC/PSC	ST	30.00	CARE A3+	-	1)CARE A3+ (07-Feb-24) 2)CARE A3+ (30-May-23)	1)CARE A3+ (07-Dec-22)	1)CARE A3+ (08-Nov-21)
2	Fund-based - LT-Term Loan	LT	11.54	CARE BBB; Positive	-	1)CARE BBB; Positive (07-Feb-24) 2)CARE BBB; Stable (30-May-23)	1)CARE BBB; Stable (07-Dec-22)	1)CARE BBB; Stable (08-Nov-21)
3	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3+	-	1)CARE A3+ (07-Feb-24) 2)CARE A3+ (30-May-23)	1)CARE A3+ (07-Dec-22)	1)CARE A3+ (08-Nov-21)
4	Non-fund-based - ST-Credit Exposure Limit	ST	3.50	CARE A3+	-	1)CARE A3+ (07-Feb-24) 2)CARE A3+ (30-May-23)	1)CARE A3+ (07-Dec-22)	1)CARE A3+ (08-Nov-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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 clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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