KSH International Private Limited

September 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	29.79 (reduced from 86.31)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+; Stable (Triple B Plus Outlook: Stable)**
Long Term/ Short Term Bank Facilities	60	**CARE A-; Stable/ CARE A2 (Single A Minus; Outlook: Stable/ A Two)**	**Long Term Rating Revised from CARE BBB+; Stable/ Short term Rating Assigned**
Short term Bank Facilities	9 (reduced from 10)	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
Total	**98.79 (Rs. Ninety Eight crore Seventy Nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings to the bank facilities of KSH International Private Limited (KSH) takes into account improvement in financial risk profile marked by increase in scale of operation, stable profit margin in FY18 (refers to the period April 1 to March 31) and Q1FY19 (refers to the period April 01 to June 30) on account of benefits accrued from capacity expansion. The ratings also consider improved capital structure and debt coverage indicators in FY18.

The ratings continue to derive strength from the strong and experienced promoter group, leading position of KSH in manufacturing of Continuously Transposed Conductors (CTC) and Insulated Copper conductors in India, order backed raw material procurement system leading to minimal impact of raw material price fluctuation, enhanced focus on value-added products, long association with customers & well-reputed and diversified customer base across various geographies.

The rating strengths are however constrained by high dependence on the power sector as the end user industry, product concentration risk and moderate scale of operations.

Any debt funded capital expenditure impacting the credit profile is key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group with established track record of operations

The promoters of KSH have been in the copper conductors business for about five decades.

Mr Kushal Hegde, the Chairman and Managing Director 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 16 years of industry experience.

Long association with a reputed and diversified customer base, reducing geographic and customer concentration risk

KSH has a reputed, established and diversified customer base in the domestic and international markets, with lower credit risk. The company has a strong export base providing geographically diversified client base. The company's long established association with large number of strong customers ensures regular flow of repeat orders.

Also KSH enters into contracts with its customers, wherein the customer agrees to purchase a fixed quantity of conductors from KSH. This gives assured revenue for KSH every year.

Low counterparty risk

Majority of sales of KSH are backed by letter of credit or bills discounting thereby largely securing the realizations.

Capital expenditure augmentation program in the value added product division

CTC is a value added as compared to PICC and due to its advantages over the conventional paper insulated rectangular wires CTC fetches a premium over PICC. There has been increase in the manufacturing capacity of CTC and PICC over the years from 14,000MTPA to 18,000MTPA till FY17. The company is ramping up its capacity utilization and is expected to be benefited in terms of improved revenues and profitability going forward.

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

Improvement in operating efficiency
On the back of increase in demand and added production lines by KSH there is overall improvement in operating efficiency over the years. The major part of the growth in demand was for high value CTC products in domestic markets as well as international market.

Financial risk profile marked by improved scale of operations, profit margins and moderate capital structure and debt coverage indicators
KSH reported Y-o-Y growth of ~38.27% growth Total operating income (TOI) in FY18 (~2.43% growth in FY17) and stood at Rs. 416.73 crore. The growth was mainly on account of change in product mix of CTC & PICC and better capacity utilization. KSH experienced ~8% growth in quantity of conductors sold. KSH's PBILDT margin during FY18 remained in line with that of FY17 and stood at 10.52% (P.Y.: 10.85%). During FY18 PAT margin stood at 5.35% (P.Y.: 4.60%). Overall gearing improved from 0.93x as on March 31, 2017 to 0.65x as on March 31, 2018. Total debt to GCA during FY18 improved and stood comfortable at 2.25x as compared with 3.58x in FY17 with no major debt funded capital expenditure expected going forward.

Impact of volatile raw material prices mitigated through order backed purchases
The company follows the policy of booking the entire raw material requirement at the time of confirmation of order from customers. Hence, the impact of volatile copper prices is mitigated as a result of its order-backed procurement system.

Key Rating Weaknesses
Product Concentration risk
KSH's more than 95% of revenue comes from CTC and PICC products which are copper based products, on account of which it faces product concentration risk.

Revenue concentration towards single end user industry
The products manufactured by KSH find applications largely in power industry. This exposes the company's operations towards any delays in execution of power projects and government policies regarding power sector. Though the majority of the revenue is concentrated towards power sector, the company, over the years has been diversifying its customer base by securing orders from railways.
In power sector, the company's major revenue is derived from transmission and distribution, and renewables segment. The long-term demand outlook for the domestic transmission and distribution industry/renewables sector is expected to be favorable due to the focus on reforms in transmission and distribution segment and investments lined up in the power generation sector including Ujwal DISCOM Assurance Yojana (UDAY) scheme to bridge the demand-supply gap in a cost effective manner, hence, insulating the company to a certain extent.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
Incorporated in July 1979 and based in Pune, KSH is promoted by Mr. Kushal S Hegde and currently managed by Mr. Rajesh Hegde and Mr Rohit Hegde. KSH international is a leading manufacturer of rectangular Insulated Copper Conductors for the past three decades. KSH today is the largest manufacturer of CTC and Insulated Copper conductors in India and supplying its products both locally and internationally to global large equipment OEM's in regions like Middle East, Japan, Bangladesh and Europe. The company has two plants with a total manufacturing capacity of 18,000 MTPA.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	301.39	416.73
PBILDT	32.71	43.83
PAT	13.85	22.28
Overall gearing (times)	0.93	0.65
Interest coverage (times)	3.29	4.61

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: *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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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
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	March 2022	19.79	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	9.00	CARE A2; Stable
Non-fund-based - ST-Forward Contract	-	-	-	0.00	Withdrawn
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	60.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Stable	-	1)CARE BBB+; Stable (18-Aug-17)	1)CARE BBB (01-Sep-16)	1)CARE BBB (12-Aug-15)
2.	Fund-based - LT-Term Loan	LT	19.79	CARE A-; Stable	-	1)CARE BBB+; Stable (18-Aug-17)	1)CARE BBB (01-Sep-16)	1)CARE BBB (12-Aug-15)
3.	Non-fund-based - ST-BG/LC	ST	9.00	CARE A2; Stable	-	1)CARE A3+ (18-Aug-17)	1)CARE A3 (01-Sep-16)	1)CARE A3 (12-Aug-15)
4.	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)CARE A3+ (18-Aug-17)	1)CARE A3 (01-Sep-16)	1)CARE A3 (12-Aug-15)
5.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	60.00	CARE A-; Stable / CARE A2	-	-	-	-

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