KSH International Private Limited

September 26, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	35.97 (enhanced from 19.79)	**CARE A-; Stable (Single A minus; Outlook: Stable)**	**Reaffirmed**
Long Term/ Short Term Bank Facilities	80.00 (enhanced from 70.00)	**CARE A-; Stable/ CARE A2 (Single A minus; Outlook: Stable/ A Two)**	**Reaffirmed**
Short term Bank Facilities	9.00	**CARE A2 (A Two)**	**Reaffirmed**
Total	**124.97 (Rs. One Hundred twenty four crore ninety seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of KSH International Private Limited (KSH) continues to derive strength from strong and experienced promoter group, established track record in manufacturing of Continuously Transposed Cable (CTC) and Paper Insulated Copper Conductors (PICC) in India, long association with reputed and diversified customer base across various geographies, low counter party risk.

The ratings also take into consideration KSH's comfortable capital structure and debt coverage indicators for the year ended FY19 (A, refers to the period April 1 to March 31) and Q1FY20 (UA, refers to the period April 1 to June 30).

The rating strengths are however constrained by moderate scale of operations with lower sales volume during FY19, marginal decline in profitability, high dependence on the power sector as the end user industry coupled with product concentration.
The ratings also factor in the company's new venture to manufacture copper round wire for which the company has incurred a debt funded capital expenditure during FY19 and FY20.

Going ahead the ability of the company to consistently improve its scale of operations, efficient working capital management while maintaining profitability and capital structure as envisaged is key rating sensitivity.
Ability to derive envisaged benefits from the new venture is a key rating monitorable.

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, also 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 and are ably supported by a team of second tier management with requisite experience as well as technical competence.

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. Strong export base provides geographic diversification. 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. Thereby providing revenue visibility to KSH every year.

Low counterparty risk
Majority of KSH's sales are backed by letter of credit thereby securing the realizations and negating the counter party risk to a large extent.

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

Comfortable Capital Structure and Debt Protection Metrics

As on March 31, 2019, debt to equity and overall gearing ratio stood comfortable below unity at 0.28x and 0.65x respectively. However on account of increase in term loan during FY19 Total Debt/ Gross Cash Accruals (TDGCA) moderated to 3.06x (PY:2.25x). Interest coverage ratio stood at 5.02x (PY:4.92x).

As on June 30, 2019, debt to equity and overall gearing also stood comfortable at 0.26x and 0.75x, respectively.

KSH's ability to maintain capital structure is key rating monitorable.

Key Rating Weaknesses

Moderate scale of operations coupled with subdued profit margins

During FY19 TOI of the company improved to Rs. 518.03 crore vis-à-vis Rs. 419.76 crore in FY18. The increase in topline was attributable mainly to higher average copper prices during FY19. However, sales volume declined marginally during FY19 as compared to FY18. Company's revenue segment consists of job work and outright sales, where it tries to maintain its conversion charges and jobwork charges. PBILDT margin declined to 8.52% during FY19 vis-à-vis 11.16% in FY18 largely due to the impact of higher copper price during FY19. PAT margin declined from 5.31% in FY18 to 3.94% in FY19. GCA stood at Rs. 24.18 crore for FY19.

During Q1FY20 (UA) company achieved TOI of Rs. 137.99 crore and PBILDT of Rs. 10.22 crore.

Revenue concentration towards single end user industry

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. 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. Further the company has been diversifying its customer base through exports.

Debt funded capital expenditure

KSH has undertaken capital expenditure during FY19 for setting up a new line for copper enameled round wires, and is majorly funded by debt. The new manufacturing plant will start generating revenues from Q3FY20.

KSH's ability to derive envisaged benefits from the new venture is a key rating monitorable.

Industry Outlook

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.

Liquidity indicator: Adequate Liquidity

KSH's liquidity is characterized by sufficient cushion in accruals vis-à-vis repayment obligation and moderate free cash balance of Rs. 7.48 crore as on March 31, 2019. Its capex requirements are modular and are funded using debt equity mix. Average utilization of working capital limits for 12 months ended July 30, 2019 was seen at 64%. Operating cycle of the company in FY19 improved marginally to 58 days (PY:63 days). Current ratio as on March 31, 2019 stood in-line with March 31, 2018 at 1.60x.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non Financial Sector
Rating Methodology : Factoring Linkages in ratings

About the Company

Incorporated in July 1979 and based in Pune, KSH International Private Limited (KSH) is promoted by Mr. Kushal S 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)	FY18 (A)	FY19(A)
Total operating income	419.76	518.03
PBILDT	46.86	44.12
PAT	22.28	20.43
Overall gearing (times)	0.65	0.65
Interest coverage (times)	4.92	5.02

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

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	-	-	-	10.00	CARE A-; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	December 2023	35.97	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	9.00	CARE A2
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	70.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	10.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable (24-Sep-18)	1)CARE BBB+; Stable (18-Aug-17)	1)CARE BBB (01-Sep-16)
2.	Fund-based - LT-Term Loan	LT	35.97	CARE A-; Stable	-	1)CARE A-; Stable (24-Sep-18)	1)CARE BBB+; Stable (18-Aug-17)	1)CARE BBB (01-Sep-16)
3.	Non-fund-based - ST-BG/LC	ST	9.00	CARE A2	-	1)CARE A2 (24-Sep-18)	1)CARE A3+ (18-Aug-17)	1)CARE A3 (01-Sep-16)
4.	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)Withdrawn (24-Sep-18)	1)CARE A3+ (18-Aug-17)	1)CARE A3 (01-Sep-16)
5.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	70.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (24-Sep-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : Not Applicable

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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About CARE Ratings:

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