KSH International Private Limited

October 08, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	15.82 (Reduced from 35.97)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long Term /Short Term Bank Facilities	80.00	**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 Facilities	**104.82 (Rs. One Hundred Four Crore and Eighty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Note: The ratings assigned to the term loans with sanctioned amount of Rs.13.50 crore, Rs.10 crore and Rs.5 crore are withdrawn on account of complete repayment of the facility and no dues certificate from the lender

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of KSH International Private Limited (KSH) continues to derive strength from its 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 and low counter party risk with a major portion of the receivables being backed against letter of credit.

The ratings further take into account KSH's comfortable capital structure and debt coverage indicators for the year ended FY20 (Audited, refers to the period April 1 to March 31) and 4MFY21 (Unaudited, refers to the period April 1 to July 31). Also, CARE notes the adequate liquidity position of the company amidst the pandemic.

The rating strengths are however are constrained by its moderate scale of operations with a decline in sales volumes and total operating income (TOI), moderation in profitability, high dependence on the power sector as the end user industry coupled with product concentration. Furthermore, CARE takes note of the stabilization risk associated with the new copper round wire manufacturing division which commenced operations in in September 2020 and the possible delay in ramping up due to the on-going pandemic.

Rating Sensitivities

Positive Factor: Factors that could lead to positive rating action/upgrade:

- Sustained improvement in PBILDT margins above 10% - 12% led by improving operating leverages and changes in product mix
- Sustained improvement in the debt coverage indicators with PBILDT interest coverage above 8x and total debt to gross cash accruals lower than 1x
- Reduced dependence on the power sector

Negative Factor: Factors that could lead to negative rating action/downgrade

- Any sustained decline in TOI and deterioration in PBILDT margin below 4%
- Any un- envisaged debt funded capital expenditure leading to deterioration overall gearing beyond 1.50x.
- Sustained deterioration in total debt to gross cash accruals beyond 7x

Detailed description of the key rating drivers

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

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

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. The company is a part of KSH group having presence in transportation and logistics and warehouse leasing business. The other two entities in the group are KSH Distriparks Private Limited (KDPL: rated CARE BBB+; Stable/CARE A3+ as of January 2, 2020) and KSH Logistics Private limited (KLPL: rated CARE BBB; Stable/CARE A3 as of January 2, 2020).

Long association with a reputed and diversified customer base

KSH has a reputed, established and diversified customer base in the domestic and international markets. The strong export base provides geographic diversification. The company's long established association with its customer base ensures regular flow of orders. Furthermore, KSH continues to be amongst the top suppliers of CTC and PICC for application in the 765KV transformers by Power Grid Corporation of India Limited (rated CARE AAA; Stable / CARE A1+ as of July 06, 2020). Also KSH enters into contracts with its customers, wherein, the customer agrees to purchase a fixed quantity of conductors thereby providing revenue visibility.

Low counterparty risk

Majority of KSH's sales are backed by letter of credit (LC) thereby securing the realizations and negating the counter party risk to a large extent. The same enables the KSH to keep the counterparty risk in check. Furthermore, the company has not faced any major instances of stuck debtors or bad debtors from domestic or export segment, in the past. Approximately 50% of exports are backed by LC.

Comfortable capital structure and debt coverage indicators

The total debt profile of the company comprised of term loans and working capital borrowings to the tune of Rs.75.09 crore as on March 31, 2020, as against a tangible net-worth base of Rs.126.56 crore, resulting in a comfortable debt to equity and overall gearing ratio at 0.20x (as against 0.28x) and 0.59x (as against 0.65x) respectively. The improvement was mainly on account of repayment of scheduled debt obligation and accretions of profits to reserves. The capital structure further improved during 4MFY21, with prepayments and reduced working capital utilization during the period.

However on account of decline in profitability in FY20, the debt protection matrices have moderated, though remain comfortable as indicated by a Total debt/GCA of 3.35x (as against 3.06x in FY19) and PBILDT interest coverage ratio of 3.85x (as against 5.02x in FY19).

The ability of the company to maintain its capital structure and debt coverage matrices is the key rating monitorable.

Key Rating Weaknesses

Moderate scale of operations with a decline in TOI during FY20

TOI declined by approximately 6% in FY20 to Rs.487.81 crore as compared to Rs.518.03 crore in FY19. Furthermore, the average sales realizations were down by approximately 5% in FY20. The same was mainly on account of decline in copper prices during the year. However, quantity sold declined only marginally by approximately 2% in FY20. The moderation in TOI during the year was also on account of the country wide lockdown during the end owing to the Covid-19 pandemic at the end of March 2020.

Moderation in profitability

Profitability moderated as indicated by a PBILDT of Rs.31.94 crore in FY20 as compared to Rs.44.12 crore in FY19 and Rs.46.86 crore in FY18. Furthermore, PAT declined from Rs.20.43 crore in FY19 to Rs.12.71 crore in FY20. However, the gross cash accruals did not see a significant decline and stood at Rs.22.38 crore in FY20 as compared to Rs.24.18 crore in FY19. The PBILDT margin moderated by 196 bps during FY20 and stood at 6.55% (as against 8.52% in FY19). PAT margin moderated and stood at 2.60% in FY20, as compared to 3.94% in FY19. The deterioration in profitability was mainly on account of the higher fixed expenses in the round wire segment, change in product mix and a marginal decline in conversion charges during the year. During 4MFY20 (UA) the TOI was mainly supported by export sales.

Stabilisation risk associated with the debt funded capital expenditure towards setting up of the Round wire division

KSH had undertaken capital expenditure during FY19 for setting up a new line for copper enameled round wires to be used in motor, automobile sector, compressors, air-conditioning, etc. The capex was majorly funded by debt. The new manufacturing plant started generating revenues from Q3FY20. The same is expected to ramp up and start contributing to profitability from

FY23. Furthermore, considering the Covid-19 crisis and resultant slowdown, delays in ramp up of at least 6 months is expected.
The ramp up of the round wire division will remain crucial to the profitability and will be a key rating monitorable.

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. KSH started supply of copper conductors for transformers used in Indian Railways. Further the company has been diversifying its customer base through exports.

Industry Outlook
In the power sector, the company's major revenue is derived from the transmission, distribution, and renewables segment. The power deficit in India is on a declining trend and has fallen from 11.07% in FY2008-09 to 0.40% by the end of FY2020. With significant amount of power capacity addition of around 200 GW (including 175 GW RE) in the next four to five years, India is expected to be a power surplus nation which would also require cross border transmission assets.

Liquidity: Adequate
The liquidity position of the compnay is characterized by a adequate cushion in accruals vis-à-vis repayment obligations. Gross cash accrual (GCA) is expected to be in the range of Rs.19 crore - Rs.20 crore as against the repayment obligations in FY21 to the tune of approximately Rs.8.50 crore. Furthermore, the company has prepaid its term loans availed from State Bank of Idnia during 4MFY21 and has an estimated debt repayment of only Rs.3 crore for the last two quarters of FY21. Free cash balance stood at Rs.3.08 crore as on March 31, 2020. Furthermore unutilized bank lines as on as on July 31, 2020 was at approximately Rs.35 crore. The current ratio remained modest and stood at 1.58x as on March 31, 2020 (1.60x as on March 31, 2019). With timely receivables, majorly backed by LC mechanism, the company has reduced its dependence on working capital borrowings during the June 20' and July 20'.

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
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Incorporated in July 1979 and based in Pune, 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 one of 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. Furthermore, the compnay has recently set up manufacturing of round wires, with an installed capacity of 5000 MTPA.
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	518.03	487.81
PBILDT	44.12	31.94
PAT	20.43	12.71
Overall gearing (times)	0.65	0.59
Interest coverage (times)	5.02	3.85

A: Audited; UA: Un-Audited. NA: Not available, NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	15.82	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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 / CARE A2 (26-Sep-19)	1)CARE A-; Stable (24-Sep-18)	1) CARE BBB+; Stable (18-Aug-17)
2.	Fund-based - LT-Term Loan	LT	15.82	CARE A-; Stable	-	1)CARE A-; Stable (26-Sep-19)	1)CARE A-; Stable (24-Sep-18)	1)CARE BBB+; Stable (18-Aug-17)
3.	Non-fund-based - ST-BG/LC	ST	9.00	CARE A2	-	1)CARE A2 (26-Sep-19)	1)CARE A2 (24-Sep-18)	1)CARE A3+ (18-Aug-17)
4.	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)Withdrawn (24-Sep-18)	1)CARE A3+ (18-Aug-17)
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 (26-Sep-19)	1)CARE A-; Stable / CARE A2 (24-Sep-18)	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
i. Margins on Fund based limits	Margin of 25% on all inventory and book debts upto 90 days for CC Margin of 10% on inventory for PCFC facility
ii. Margins on Non Fund based limits	15% cash margin
iii. Financail ratios	Current ratio should not be less than 1x Debt to Equity above 3x DSCR below 1.33x EBITDA below 7% TOL/TNW above 4x
B. Non-financial covenants	
I Submission of Annual and Quarterly financial Statements	Audited financials within 180 days from close of financial year Quarterly financials within 45 days from close of quarter
ii Submission of stock and debtors statement	Monthly stock statements and book debt on the last day of the month on or before 21st day of succeeding month.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ms. Amita Yadav
Group Head Contact no.: 020 – 40009000
Group Head Email ID: amita.yadav@careratings.com

Relationship Contact
Name: Mr Aakash Jain
Contact no.: 020 - 40009090
Email ID: aakash.jain@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**