

**Kilburn Engineering Limited**  
**March 31, 2020**

**Ratings**

Facilities*	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	120.00 (120.00)	<b>CARE B; Negative (Single B; Outlook: Negative)</b>	<b>Reaffirmed</b>
Long-term/Short-term Bank Facilities	75.00 (75.00)	<b>CARE B; Negative/ CARE A4 (Single B; Outlook: Negative /A Four)</b>	<b>Reaffirmed</b>
<b>Total facilities</b>	<b>195.00 (Rs. One hundred and ninety five crore only)</b>		

\*Details of facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The reaffirmation in ratings assigned to the bank facilities of Kilburn Engineering Limited (KEL) factors in the significant deterioration in the liquidity position and stretched financials of the Group companies belonging to the Williamson Magor Group, to which KEL has provided significant Inter Corporate Deposits (ICD's). Delay in recovery of the outstanding amount from the group companies is likely to further impact the debt coverage indicators of KEL.

Furthermore, the ratings are tempered by moderate order book position, decline in value of investments in group companies and susceptibility to cyclicalities of manufacturing industry.

However, the ratings continue to derive comfort from steady standalone business performance of KEL with healthy profitability margins.

**Key Rating Sensitivities****Positive Rating Sensitivities**

- Refinancing its debt repayment obligations wherein Rs.95.00 crore of ICD's would be repaid.
- Improvement in overall gearing below 0.50x

**Negative Rating Sensitivities**

- Delay in recovery of dues from the group companies against the ICD's
- Deterioration in overall gearing below existing level of 1.15x
- Deterioration of PBILDT margins below the existing level of 16.00%

**Detailed description of the key rating drivers****Key Rating Weakness:****Significant exposure to group companies with stressed financial position**

During FY17, the KEL had availed loans from banks, supported by Letter of Comfort received from Mcleod Russel India Limited along with unconditional and irrevocable corporate guarantee provided by Williamson Financial Services Limited and Bishnauth Investments Limited. These funds were transferred as Inter Corporate Deposits (ICD's) to group companies - Babcock Borsig Limited (BBL), Williamson Financial Services Ltd. and Williamson Magor & Co. Limited (WMCL). Owing to significant deterioration in the financial profile of the group companies to which KEL has significant financial exposure, has resulted into weakening of the debt coverage indicators of KEL. The ICDs and interest accrued thereon receivable from these group companies as at 31st December 2019 is aggregating to Rs. 108.26 crore and Rs. 17.52 crore respectively.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

***Moderate order book with short term revenue visibility***

As on January 31<sup>st</sup> 2020, the order book of the company stood at Rs.76.20 crore (0.47x of FY19 sales). Considering the orders in pipeline, the company has medium term revenue visibility for a period of 12 months.

***Decline in value of Investments in group companies***

KEL is an equity shareholder in McNally Bharat Engineering Company limited, Eveready Industries Limited, McLeod Russell India Limited. Due to fall in market value of share price of these companies financial assets have deteriorated from Rs.16.09 crore in FY18 to Rs.6.38 crore in FY19. KEL's propensity to support other group companies could lead to liquidity constraints in the future.

***Susceptibility to cyclical nature of industry***

KEL caters to companies undertaking capacity expansions or setting up new capacity and not to replacement markets, as the operating life of the dryers is long with frequent technological up-gradations. However, capacity utilization levels of the manufacturing sector was around 69.1% in Q2FY20 vis-à-vis 74.8% in Q2FY19 (Source:-RBI capacity utilization survey, February 2019), indicating enough spare capacity to meet uptick in demand. As a result, the conversion of the capex announcements by industry players into orders for the engineering & capital goods sector is likely to take more time than previously anticipated. Order flow in near term is likely to be affected due to slow pickup in utilisation level affecting private sector spending.

**Key Rating Strength:*****Experienced track record in manufacturing customized process equipment***

KEL has over three decades of experience in manufacturing customised process equipment in various industries ranging from chemicals, petrochemicals, oil, gas, refineries, fertilisers, nuclear power plants and food processing industries covering tea, sugar, paddy and coconut. The company has developed machinery for tea industry which is now used across the world. The company has also manufactured certain niche products such as Rotary Dryer for Carbon Black, Instrument and Utility gas drying System (IUGS), Soda ash Calciners.

***Improvement in operating performance in FY19 and steady performance in 9MFY20***

KEL witnessed a jump of 32.58% on back of steady order book position wherein the revenue improved from Rs. 121.10 crore in FY18 to Rs. 160.55 crore in FY19. This is on account of steady movement of order inflows for its process equipment (PE) segment which contributes major part of the revenue. Total income on a nine month basis improved marginally from Rs.113.39 crore in 9MFY19 to Rs.117.54 crore in 9MFY20 on account of improvement in sales in Q2FY20 (Rs.37.41 crore) over Q2FY19 (Rs.30.83 crore).

**Liquidity: Poor**

With overall gearing already above unity, KEL does not have enough headroom to raise additional debt. Overall gearing of KEL deteriorated to 1.15x on March 31, 2019, compared with 1.08x times as on March 31, 2018. Deterioration of overall gearing was on account of fall in networth of the company from Rs.105.89 crore in FY18 to Rs.98.72 crore. KEL operates in a business which is highly working capital intensive. The average execution period of orders ranges between 8-12 months. KEL has reported an unbilled revenue of Rs. 36.08 crore in FY19 as compared to Rs.25.58 crore in FY18. Operating cycle days has improved from 72 days in FY18 to 65 days in FY19. Total receivable days improved from 109 days in FY18 from 95 days in FY19. Inventory days were stable at 39 days in FY19 from 41 days in FY18. Average working capital utilization was about 84.01% for the period of twelve month ending January, 2020.

Furthermore, non-recovery of the ICD's may constrain the ability of the company to repay its debt obligations on a timely basis. Thus liquidity position of the company continues to remain poor owing to lower cash accruals as compared to the repayment obligations, mainly on account on non-recovery of ICD's from the group companies.

**Analytical approach:** Standalone

**Applicable Criteria:**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

**About KEL:**

Incorporated on September 7, 1987, Kilburn Engineering Limited (KEL) is a Williamson Magor Group Enterprise listed on Bombay Stock Exchange (BSE) and Calcutta Stock Exchange (CSE). KEL manufactures drying systems, pneumatic handling systems, heat exchangers, etc with specialized expertise in design, engineering, manufacturing and installation of drying systems for solids, liquids and gases. KEL caters to various industries ranging from Chemicals, Petrochemicals to Food, Oil & Gas, Refinery, Power Plants & Steel. KEL also provides services for erecting, commissioning and annual maintenance of the equipment manufactured.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	121.10	160.55
PBILDT	20.22	26.58
PAT	3.36	5.92
Overall gearing (times)	1.08	1.15
Interest coverage (times)	1.15	1.55

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

**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	-	-	-	25.00	CARE B; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	75.00	CARE B; Negative / CARE A4
Fund-based - LT-Term Loan	-	-	September 2020	95.00	CARE B; Negative

**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.	Fund-based - LT-Cash Credit	LT	25.00	CARE B; Negative	1)CARE B; Negative (24-Jul-19) 2)CARE BB+; Stable	1)CARE BBB-; Stable (06-Apr-18)	1)CARE BBB-; Stable (13-Apr-17)	1)CARE BBB- (Under Credit Watch)

					(02-Apr-19)			(25-Apr-16)
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	75.00	CARE B; Negative / CARE A4	1)CARE B; Negative / CARE A4 (24-Jul-19) 2)CARE BB+; Stable / CARE A4+ (02-Apr-19)	1)CARE BBB-; Stable / CARE A3 (06-Apr-18)	1)CARE BBB-; Stable / CARE A3 (13-Apr-17)	1)CARE BBB- / CARE A3 (Under Credit Watch) (25-Apr-16)
3.	Fund-based - LT-Term Loan	LT	95.00	CARE B; Negative	1)CARE B; Negative (24-Jul-19) 2)CARE BB+; Stable (02-Apr-19)	1)CARE BBB-; Stable (06-Apr-18)	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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