



Rating Rationale

05 Jun 2020

Kiran Udyog Private Limited

Brickwork Ratings reaffirms the ratings, with a stable outlook, for the Bank Loan facilities aggregating Rs.140.21Cr of Kiran Udyog Private Limited.

Particulars:

| Facilities Availed | Previous Amount (Rs. Crs) | Present Amount (Rs. Crs.) | Tenure | Previous Rating 14 Mar 2019 | Present Rating |
|-------------------------------|---------------------------|---------------------------|---|-----------------------------|------------------------------|
| Fund Based | | | | | |
| Cash Credit | 35.50 | 40.50 | Long Term | BWR BBB-Stable | BWR BBB-Stable Reaffirmation |
| Term Loan | 80.84 | 79.71 | | | |
| Pre Shipment/Bill Discounting | 35.00 | 2.50 | Short Term | BWR A3 | BWR A3 Reaffirmation |
| Non Fund based | | | | | |
| LC/BG | 25.00 | 17.50 | | | |
| Total | 176.34 | 140.21 | Rs. One Hundred and Forty Crores and Twenty One lakhs Only | | |

*^Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.
Please refer to Annexure I for bank facilities details.*

RATING ACTION / OUTLOOK

The reaffirmation in the ratings of Kiran Udyog Private Limited (KUPL or the company) factors in the stability in its operations in FY19 and FY20 (provisional); while EBITDA and PAT margins declined in FY19 and further declined in FY20 (provisional), cash accruals remained adequate to service interest and debt repayment obligations. The company has projected a decline in its turnover and profitability margins for FY21, owing to the impact of the COVID-19 pandemic on its operations and the overall slowdown in the auto sector, in general. The ratings, however, derive comfort from the promoters' business experience in the auto components industry, long-standing relationships with OEMs and industry majors, and benefits derived from the strategic location of its manufacturing units.



Rating Outlook: Stable

BWR believes the Kiran Udyog Private Limited's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

Impact of COVID-19: The company has been facing a lot of turbulence due to slow down in the auto sector and the current impact of Covid-19 lockdown resulting in shut down of all its plants. The company has obtained moratorium on repayment of interest and principal, as per the RBI guidelines. Currently, the manufacturing operations of the company have not resumed operations as the Delhi NCR borders are closed.

Key Rating Drivers

Credit Strengths:

- **Financial Risk Profile:** KUPL's adjusted gearing (TOL/TNW ratio) improved to 2.09x in FY19 as against 2.41x in FY18 on account of partial repayment of term loans and low outstanding short term debt in FY19. The financial leverage (viz Net Debt/ EBDITA ratio) of the company improved to 2.71x in FY19 as against 3.86x in FY18 owing to a decline in total adjusted debt in FY19. (Adjusted debt was calculated by assuming 50% of the long term borrowings from promoters as quasi equity). Further, ISCR declined to 1.64x in FY 19 (PY:1.73x); the same has improved in FY20 (provisional) to 1.96x owing to steep decline in the interest costs in FY20. DSCR stood moderate at 1.18x in FY19 (PY: 1.11x).
- **Strategic location of manufacturing units:** KUPL has set up its manufacturing units in the vicinity of the OEMs to which it caters. This helps KUPL to remain competitive in the industry by keeping transportation costs and handling costs low. It also provides further business opportunities to the company for manufacturing of various components for other customers in the proximity.
- **Experienced promoters and Established OEM association:** KUPL's promoters have been engaged in the business of manufacturing auto components for two wheelers and four wheelers over the past three decades. The top management at KUPL is ably supported by a qualified and professional senior management team having experience in the industry for more than a decade to manage various functions of the company. The company is a preferred vendor to Honda Motors and Scooters Pvt Ltd, Maruti Suzuki India Limited, amongst others, for supplying automotive components including aluminium die castings and wheel assembly components. The long experience of the promoters in the industry has established relationships with OEMs and auto industry majors which has enabled the company to fetch repeat orders.

Credit Weaknesses

- **Low operating revenues:** A marginal y-o-y increase in sales of 3.22% was observed in FY19; the same stood at Rs.406.21Cr in FY19. Further, BWR is advised that due to a general slowdown in the passenger auto sector, lockdown due to the Covid-19 pandemic, and transition from BSIV to BSVI emission norms, the OEMs have revised their delivery schedules leading to decline in revenue to Rs. 325.03 Crs in FY 20 (provisional). The revenue is estimated to further decline to Rs.250Crs in FY20 (projected), owing to Covid-19 impact in Q1FY21 and general slowdown / headwinds being faced by the auto sector.
- **Decline in Profitability:** KUPL's PAT has substantially declined to Rs.1.46Crs in FY19 and further to Rs.0.57Crs in FY 20 (provisional), as against PAT of Rs.2.68Crs in FY18. As the key raw materials required are steel and aluminum, procurement costs contribute to more than 70% of the operating expense of the company upon which the company has no control. Increasing raw material cost coupled with fixed expenses of maintenance, electricity and employee expenses have lead to the decline in OPM in FY19 and FY20 (provisional)

Analytical Approach

BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). Further, 50% of the unsecured loan form the directors and related parties have been treated as quasi-equity and the same is added and investments and loans to sister/group companies are excluded from the net worth while calculating the Analysed Network of the company.

RATING SENSITIVITIES

Positives: The rating is sensitive to the achievement of projected sales revenues, improvement in profitability margins, and reduction in overall gearing to acceptable levels, with stable debt protection metrics and moderate liquidity parameters.

Negatives: An adverse rating action may be taken, if the company's gearing and debt protection metrics deteriorate from the current levels, and the profitability margins and operating income estimated for FY20 is not achieved.

Liquidity: Adequate

For FY19, the company had the total debt repayment obligation of Rs.13.49Cr against the cash accruals (PAT + Dep.) of Rs.20.71 Cr (provisional) as on Mar 2020, with a buffer of cash & liquid investments in FY19. For FY21 (projected) the cash accruals are expected to decline to Rs. 15.66 Crs. Further, the company is generating an average moderate EBITDA of Rs.40.47Crs for FY 17~20 as against average finance charges of Rs.23.36Crs for the same tenure reflecting a moderate liquidity position of the company. Bankers have advised that the Cash Credit limits remain fully utilised on account of increasing inventory and receivables days. Going forward, any further increase in inventory and



receivables levels will put a higher strain on the already stretched liquidity position of the company.

About the Company

Kiran Udyog Private Limited (KUPL), was incorporated in 2001 as a private limited company. It is a sister concern of Kiran Udyog which was started in 1984 for manufacturing of auto components for the replacement market.

KUPL is supplied to leading Original equipment Manufacturers. Kiran Udyog is an ISO-9002 certified group company. KUPL is an approved vendor for supplying aluminium die casting products to leading OEMs (Original Equipment Manufacturer) including Maruti Udyog Limited, Honda MotorCycles & Scooters Private Limited(HMSI), Lucas TVS, amongst others.

The Director's of the company are Mr.Rajiv Kumar Jain, Mr.Arvind Kumar Jain, and Mr.Vivek Kumar Jain. The company has 5 manufacturing units. (3 in Manesar , 1 in Bawal and 1 in Pant Nagar).

Key Financial Indicators

| Key Parameters | Units | FY 18 | FY 19 |
|-----------------------------------|--------------|----------------|----------------|
| Result Type | | Audited | Audited |
| Total Operating Income | Rs. Crs | 393.56 | 406.21 |
| OPBDIT | Rs. Crs | 44.20 | 44.12 |
| PAT | Rs. Crs | 2.68 | 1.46 |
| Tangible Net worth (Analysed)* | Rs. Crs | 97.18 | 100.02 |
| TOL/TNW (Analysed)* | Times | 2.41 | 2.09 |
| Current Ratio | Times | 1.12 | 1.38 |

*50% of the unsecured loan from the directors have been treated as quasi-equity and the same is added to the Tangible Net worth of the company. While the advances and investments given to the sister company are excluded from the Tangible Net worth of the company.

RATING HISTORY for past three years (including ratings suspended/withdrawn)

| Facilities | Current Rating (2020) | | Rating History for the past 3 years (Amount in Rs. Crs) | | | | |
|------------|------------------------|--------------------|---|------------|-----------------------|-----------|----------------------|
| | Rating | | 2019 | 2018 | 2017 | | |
| Bank Loan | | | 14 Mar 2019 | | | | |
| | | | FB | 151.34 | BWR BBB- Stable | | |
| | | | 14 Mar 2019 | | | | |
| | FB | 122.71 | BWR BBB- Stable | NFB | 25.00 | BWR A3 | |
| | | 28 Nov 2017 | | | | | |
| | | - | | | | | |
| | | 04 Feb 2019 | | | | | |
| | | NFB | 17.50 | BWR A3 | FB | 173.41 | BWR BB+ Stable |
| | | 04 Feb 2019 | | | | | |
| | | NF B | 50. 00 | BWR A4+ | NFB | 30.00 | BWR A3 |

Status of non-cooperation with previous CRA : NA

Any other information: Not Applicable

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Unit](#)

- [Short Term Debt](#)

| Analytical Contacts | Investor and Media Relations |
|---|---|
| <p>Neha Jain Rating Analyst Phone:011-23412232 ,23413896 Extn: 114 neha.j@brickworkratings.com</p> <p>Ashwini Mital Director - Ratings +91 172 5032296 ashwinimital@brickworkratings.com</p> | <p>Liena Thakur Assistant Vice President - Corporate Communications M : +91 84339 94686 liena.t@brickworkratings.com</p> |

Kiran Udyog Private Limited.

ANNEXURE I

Details of Bank Facilities rated by BWR

| Sl. No. | Name of the Bank/NBFC | Type of Facilities | Long Term (₹ Cr) | Short Term (₹ Cr) | Total (₹ Cr) |
|---------|----------------------------------|--------------------|------------------|-------------------|--------------|
| 1 | TFCI | Term Loan | 48.93 | - | 48.93 |
| 2 | HDFC Bank | Term Loan | 9.25 | - | 9.25 |
| 3 | TATA Capital Finance Ltd | Term Loan | 16.88 | - | 16.88 |
| 4 | Jainsons Finlease | Term Loan | 0.52 | - | 0.52 |
| 5 | Visu Finleasing and Finance Ltd. | Term Loan | 0.60 | - | 0.60 |
| 6 | CLIX Finance India Pvt Ltd | Term Loan | 3.54 | - | 3.54 |
| 7 | Bajaj Finance Ltd | WCDL/STLR | 16.50 | - | 16.50 |
| 8 | TATA Capital Financial Services | Cash Credit | 5.00 | - | 5.00 |

| | | | | | |
|----|-------------------|------------------|-------|------|--------|
| 9 | J&K Bank | Cash Credit | 13.00 | - | 13.00 |
| 10 | HDFC Bank | Cash Credit | 1.00 | - | 1.00 |
| 11 | ICICI Bank | Cash Credit | 5.00 | - | 5.00 |
| 12 | Bajaj Finance Ltd | Bill Discounting | - | 2.50 | 2.50 |
| 13 | J&K Bank | Bill Discounting | - | 3.00 | 3.00 |
| 14 | J&K Bank | LC/BG | - | 7.00 | 7.00 |
| 15 | HDFC Bank | LC/BG | - | 5.00 | 5.00 |
| 16 | ICICI Bank | LC/BG | - | 2.50 | 2.50 |
| | Total | | | | 140.21 |

Total :Rupees. One Hundred and Forty Crores and Twenty One lakhs Only

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