KSH International Private Limited

December 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	199.36 (Enhanced from 12.82)	CARE A-; Stable	Reaffirmed; Outlook revised from Positive
Long-term / Short-term bank facilities	135.00 (Enhanced from 120.00)	CARE A-; Stable / CARE A2	Reaffirmed; Outlook revised from Positive
Short-term bank facilities	28.00	CARE A2	Assigned
Short-term bank facilities	4.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of KSH International Private Limited (KSH) continues to derive strength from its experienced promoters, its strong market position in the copper winding wires industry, and reputed clientele. The ratings also factor in the growing scale of operations and comfortable financial risk profile.

These strengths are partially offset by modest profitability, exposure to volatility in raw material prices and end-user concentration in revenue. The ratings also factor in the project risk associated with the planned large-sized debt-funded expansion project which is expected to result in moderation of financial risk profile of the company in medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Stabilisation of capex resulting in growth of scale of operations and absolute profit before interest, lease rentals, depreciation and taxation (PBILDT).
- Improved working capital cycle resulting in lower reliance on external borrowings on a sustained basis.
- Total debt to gross cash accruals (TDGCA) below 5x on a sustained basis.

Negative factors

- Higher-than-anticipated incremental debt, due to time and cost overruns in the proposed project and/or incremental working capital requirement leading to overall gearing ratio of over 1.5x.
- Dip in PBILDT below ₹40 crore on a sustained basis.

Analytical approach: Standalone

Outlook: Changed from 'Positive' to 'Stable'

The revision in the outlook on the long-term rating of the KSH from 'Positive' to 'Stable' factors in expected moderation of capital structure and debt protection metrics over the medium term owing to large debt-funded capex undertaken by the company.

Detailed description of the key rating drivers:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key strengths

Experienced promoter group with long track record of operations

The promoters of KSH have been in the copper conductor's business for about five decades. Kushal Hegde, the Chairman, has an experience of over five decades in the manufacturing and infrastructure sectors. The second-generation entrepreneurs of the Hegde family, Rajesh Hegde and Rohit Hegde, have over two decades of industry experience and are ably supported by a team of second-tier management with requisite experience as well as technical competence. Over its four decades of existence, the company has established significant presence in the copper winding wire industry, particularly continuously transposed cable (CTC), paper insulated covered conductors (PICC) and enamelled round copper or aluminium wire in India and export markets.

Long association with established and diversified customer base with healthy market position in CTC and PICC segment

KSH continues to have healthy market position in Bare and Insulated copper wires and Transposed Cables in India. The company caters to various reputed original equipment manufacturing (OEM) companies in India and globally. By virtue of servicing these OEMs, the company has developed long-term business relationship. These OEMs are majorly in power, railways, auto, and transformers, amongst others. Further, the company has diversified a customer base.

Growing scale of operations

KSH's TOI increased to ₹1,055.55 crore in FY23 (refers to the period from April 1 to March 31) from ₹874.40 crore in FY22. The growth was driven by increased volumetric sales, on the back of better demand from end-user segment, coupled with improved realisations. During H1FY24, KSH reported revenue of ₹702.56 crore (Unaudited, refers to the period from April 1 to September 30). CARE Ratings Limited (CARE Ratings) expects the scale of operations to witness steady growth over the medium term on the back of improved order flow, enhancement of capacity and addition of new product.

Comfortable financial risk profile

The capital structure of the company remained comfortable with overall gearing of 0.61x as on March 31, 2023 (0.86x as on March 31, 2022). Interest coverage ratio, though moderated due to higher interest expenses, remained satisfactory at 4.03x in FY23 (5.54x in FY22). Furthermore, TDGCA stood at 3.42x in FY23 (4.10x in FY22). The company is incurring large debt-funded capex which is expected to deteriorate the capital structure and debt protection metrics over the medium term. CARE Ratings notes that any higher-than-envisaged debt-funded capex may weaken the financial risk profile, and the same will remain key monitorable going forward.

Key weaknesses

Project risk associated with planned large-sized debt-funded capex

The company is in the process of enhancing its installed capacity and add new products to its product portfolio. The capex of around ₹200 crore is expected to be incurred in over FY24-FY25 which is largely debt funded. The company has incurred around 10% of the cost till September 30, 2023, funded entirely through internal accruals. The unit is expected to commence its operations by early FY26. The project is in nascent stage of completion, and thus exposed to execution risk. CARE Ratings notes that any time or cost overrun may strain the liquidity and will remain key monitorable going forward.

Modest profitability

KSH either undertakes end-to-end work, i.e., outright sales or on job-work basis. Furthermore, with fixed fabrication rate per tonne, the copper prices are inversely proportional to the profitability margins. Moreover, the PBILDT margins are dependent upon revenue mix. By virtue of relatively low value addition of winding wires, the PBILDT margins of the company range between 4% and 6%. The company reported marginal dip in PBILDT margins to 5.23% in FY23 from 6.27% in FY22 owing to reduction in contribution of value-added products towards revenue. CARE Ratings expects the PBILDT margins to remain modest over the medium term.

End-user concentration

The products manufactured by KSH find applications in power industry, railways, automobiles, consumer durable and industrial segment. However, 65-70% of the revenue is derived from catering to power industry. This exposes the company's operations towards any delays in execution of power projects and government policies regarding power sector. The foray in the round wire product segment by KSH will allow the company to partly diversify its end-user profile considering it will target the automobile sector, consumer durables and industrial sector.

Exposure to volatility of copper prices

Major raw material used in manufacturing is copper, which forms around 90% of the total operating cost for the company. KSH books raw material requirement on receipt of confirmed orders only. The company procures copper in back-to-back arrangement with suppliers against confirmed orders, i.e., the customer prices the copper with KSH and KSH does the same with its suppliers, thereby mitigating full volatility of raw material prices to a larger extent.

Liquidity: Adequate

The liquidity position of the company is characterised by healthy cushion in accruals vis-à-vis repayment obligations. GCA are expected to be in the range of ₹40 crore - ₹45 crore in FY24 and FY25 as against the low annual repayment obligations to the tune of approximately ₹4 crore. This leaves sufficient headroom for internal funds to contribute to the capital expenditures. However, going forward, the repayment obligations are expected to increase and be in the range of ₹14-20 crore. The operations of the company are moderately working capital intensive as indicated by an operating cycle of 70 days as on March 31, 2023 (68 days as on March 31, 2022), with the average bank limit utilisation averaging at 37% for the past 12 months ended September 30, 2023. To support the growing scale of operations, the company has been increasing its working capital limits.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Cables - Electricals

Incorporated in July 1979 and based in Pune, KSH is promoted by Kushal S Hegde. It is amongst the leading manufacturers of CTC and PICC in India and supplies its products both locally and internationally to global large equipment OEMs in regions like USA, Middle East, Bangladesh, etc. The company has three plants with a total manufacturing capacity of 26,600 MTPA for PICC, CTC and round wire.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	874.40	1,055.55	NA
PBILDT	54.80	55.25	
PAT	29.25	28.18	
Overall gearing (times)	0.86	0.61	
Interest coverage (times)	5.54	4.03	

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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 facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	31/03/2035	199.36	CARE A-; Stable
Fund-based-Short term		-	-	-	28.00	CARE A2
Fund-based/Non-fund-based-LT/ST		-	-	-	25.00	CARE A-; Stable / CARE A2
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	35.00	CARE A-; Stable / CARE A2
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	75.00	CARE A-; Stable / CARE A2
Non-fund-based - ST-BG/LC		-	-	-	4.00	CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	35.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Positive / CARE A2 (30-Nov-22)	1)CARE A-; Stable / CARE A2 (03-Nov-21)	1)CARE A-; Stable / CARE A2 (08-Oct-20)
2	Fund-based - LT-Term loan	LT	199.36	CARE A-; Stable	-	1)CARE A-; Positive (30-Nov-22)	1)CARE A-; Stable (03-Nov-21)	1)CARE A-; Stable (08-Oct-20)
3	Non-fund-based - ST-BG/LC	ST	4.00	CARE A2	-	1)CARE A2 (30-Nov-22)	1)CARE A2 (03-Nov-21)	1)CARE A2 (08-Oct-20)
4	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	75.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Positive / CARE A2 (30-Nov-22)	1)CARE A-; Stable / CARE A2 (03-Nov-21)	1)CARE A-; Stable / CARE A2 (08-Oct-20)
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	25.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Positive / CARE A2 (30-Nov-22)	-	-
6	Fund-based-Short term	ST	28.00	CARE A2				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
Debt service coverage ratio	Min 1.25x
Total debt/TNW	Less than 2x
Total debt/EBITDA	<5.5x for FY24 and FY25

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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