February 27, 2024

KL Hi-Tech Secure Print Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long-term - Fund-based limits - Cash credit	25.00	25.00	[ICRA]BBB (Stable); Reaffirmed
Long-term/Short term - Non-fund based limits	25.00	26.62	[ICRA]BBB (Stable)/ [ICRA]A3+; Reaffirmed
Long-term - Fund-based - Term loans	12.00	10.38	[ICRA]BBB (Stable); Reaffirmed
Total	**62.0**	**62.0**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation takes into account KL Hi-Tech Secure Print Limited's (KHSPL) strong revenue growth to Rs. 195.4 crore in FY2023. It is expected to sustain its growth momentum with revenues estimated to cross Rs. 240 crore for FY2024 on the back of healthy order book position and execution. It has already achieved revenues of Rs. 195.6 crore in 9M FY2024 compared to Rs. 137.0 crore in 9M FY2023. The ratings consider its established track record in the secured printing business and reputed customer base, with repeat orders from the banking institutions and Government entities such as Canara Bank, Central Bank of India, Punjab National Bank, Maharashtra State Board of Secondary and Higher Secondary Education, Unique Identification Authority of India (UIDAI), among others. The ratings favourably factor in the moderation in working capital intensity, supported by timely receipt of payments from its customers with reduction in debtor days to 48 in FY2023 from 93 days in FY2022.

The ratings are, however, constrained by KHSPL's modest scale of operations, moderate client concentration risk with top five customers accounting for 68% of revenue. The ratings note its modest debt coverage metrics and capital-intensive nature of operations. The company's profitability margins declined to 8% in FY2023 from above 10% levels prior to FY2022 on the back of a sharp increase in raw material prices, with majority of its contracts being fixed price in nature. With receipt of orders at revised prices and reduction in input costs, KHSPL's operating margins improved to 16.6% in 9M FY2024. Its ability to sustain these margins remains a key rating monitorable. The interest coverage reduced to 2.9 times in FY2023 from 3.6 times in FY2020 owing to lower margins and higher interest cost. The same is expected to improve to over 5 times in the near term, supported by improvement in operating margins. While the client concentration is likely to remain moderate over the medium term, the counterparty risk is relatively low as majority of its customers are government departments or banks. KHSPL is likely to incur significant capex every year to upgrade machinery to ensure security compliances, meet evolving technology needs and add new products, thereby resulting in negative free cash flows as witnessed in the past.

The Stable outlook on [ICRA]BBB rating reflects ICRA's opinion that the company will be able to sustain revenue growth on the back healthy order book position and expected improvement in debt coverage metrics on the back of growth in earnings.

Key rating drivers and their description

Credit strengths

Established track record of KHSPL in secure printing industry – Incorporated in 1986, the company started its operations with lottery tickets printing, banking stationery and education material printing. In FY2017, it ventured into manufacturing banking cards. Over the years, KHSPL has grown as an end-to-end secure print service provider offering varied services such as security printing, digital printing, banking cards, smart cards, recharge cards, examination solutions, etc. It specialises in offering solutions to banking, publishing, Government, telecom segments, etc. The secured printing segment has a long validation cycle, which along with the high capital intensity in the business restricts the entry of small players and ensures relatively better margins against other printing sub-segments.

Reputed customer profile – KHSPL's client profile includes reputed players such as UIDAI, Central Bank of India, Canara Bank, Punjab National Bank, ICICI Bank, Reliance Jio Infocomm Limited, along with state government education departments. Further, the counterparty risk is relatively low because of the reputed and financially strong clientele.

Strong revenue growth in FY2023 expected to sustain in near term – KHSPL's revenue witnessed strong growth to Rs. 196.4 crore in FY2023 from Rs. 92.2 crore in FY2022 on the back of healthy order book and execution. It has already achieved revenues of Rs. 195.6 crore in 9M FY2024 compared to Rs. 137.0 crore in 9M FY2023. ICRA expects the revenue growth to continue with the company achieving revenues of more than Rs. 240 crore for FY2024, supported by healthy order book position and execution.

Credit challenges

Operating margins susceptible to fluctuation in raw material prices as witnessed in the past two years – KHSPL's profitability is susceptible to volatility in key raw material prices like polyvinyl chloride, paper, hologram and chip module. Its profitability margins declined to 8.0% in FY2023 from 10.2% in FY2022 mainly on account of an increase in the price of chip modules. With receipt of orders at revised prices and reduction in input costs, the company's operating margins improved to 16.6% in 9M FY2024. Its ability to sustain these margins remains a key rating monitorable.

Moderate customer concentration risk – The top five customers accounted for 68% of revenues in FY2023, which exposes the company to moderate client concentration risk. While the client concentration is likely to remain high over the medium term, the counterparty risk is relatively low as majority of its customers are government departments or banks.

High capex requirements – The company's capex requirements are high as the security printing business requires special machinery to meet the evolving technology needs, new products and security compliance, etc. It incurred a total capex of Rs. 24.2 crore during the past three years to add and upgrade its machinery, resulting in negative free cash flows. Further, KHSPL plans to incur a capex of Rs. 22.0 crore for construction, building and addition of new machinery, which is to be funded by term loan and internal accruals. The capex is expected to be completed by August 2024.

Liquidity position: Adequate

The company's liquidity position is adequate with moderate utilisation of 79% in working capital limits during the past thirteen months ending January 2024. Further, low repayments of Rs. 2.50 crore in FY2024 and Rs. 1.50 crore in FY2025 and timely realisation of payments are likely to support its liquidity position in the near term. It is setting up a new unit with an estimated capital outlay of Rs. 15 crore, which will be funded through internal accruals and undrawn term loan.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant improvement in the company's scale of operations and profitability resulting in improvement in debt protection metrics and liquidity position on a sustained basis.

Negative factors – The ratings could be downgraded if the company witnesses a material decline in revenues or earnings, thereby resulting in deterioration of debt coverage metrics or liquidity position. Specific credit metrics that could lead to a downgrade of KHSPL's ratings include interest coverage below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Print Media
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

KHSPL is a limited company incorporated on August 5, 1986 by Mr. P. Srinivas Rao and his family members. The company provides secure printing solutions to corporate organisations, financial institutions and banks. Its production facility is in IDA, Bollaram, Medak district, with a floor area of about 75,000 square feet. It has clearly demarked areas for pre-press, production, post-production, despatch and raw material storage. Over the years, KHSPL has grown as an end-to-end secure print service provider offering varied services such as security printing, variable data printing, digital printing, book printing, pre-media services, banking cards, smart cards, card management services, outsourced print management services, smart cards, packaging solutions, payment system, examination solutions, etc. It specialises in offering solutions to banking, publishing, Government, telecom segments, etc.

Key financial indicators

Standalone	FY2022	FY2023
	Audited	Audited
Operating income (Rs. crore)	92.2	196.4
PAT (Rs. crore)	1.2	3.5
OPBDIT/OI (%)	10.2%	8.0%
PAT/OI (%)	1.3%	1.8%
Total outside liabilities/Tangible net worth (times)	1.7	1.7
Total debt/OPBDIT (times)	4.6	3.0
Interest coverage (times)	2.4	2.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of press release
CRISIL	CRISIL B; Stable; ISSUER NOT COOPERATING CRISIL A4 ISSUER NOT COOPERATING	February 13, 2024

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 20, 2024 (Rs. crore)	Date & Rating	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Feb 27, 2024	Feb 03, 2023	Nov 14, 2022	Oct 05, 2021	Nov 05, 2020
1	**Fund-based limits - Cash credit**	Long-term	25.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	**Non-fund based**	Long term/short term	26.62	-	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+
2	**Fund-based - Term loan**	Long-term	10.38	10.38	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
4	**Unallocated limits**	Long term/short term	-	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits - Cash credit	Simple
Non-fund based - BG	Very Simple
Fund-based - Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based limits - Cash credit**	NA	NA	NA	25.00	[ICRA]BBB (Stable)
NA	**Non-fund based**	NA	NA	NA	26.62	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	**Fund-based - Term loan**	January 2021	NA	March 2031	10.38	[ICRA]BBB (Stable)

Source: Company;

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 6939 6424
vinay.g@icraindia.com

Doddapanani Srisai Bhavya
+91 40 6939 6421
doddapanani.bhavya@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches