March 28, 2024

Kartikeya Industries Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based limits - Cash credit	32.00	32.00	[ICRA]BBB- (Stable); reaffirmed
Long term – Term loans	4.74	3.02	[ICRA]BBB- (Stable); reaffirmed
Short term – Non-fund based - Bank guarantee	30.00	40.00	[ICRA]A3 reaffirmed/assigned for enhanced amount
Long term/Short term- Unallocated	0.26	11.98	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed/assigned for enhanced amount
Total	**67.00**	**87.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in Kartikeya Industries Private Limited's (KIPL) established presence and the experience of the promoters in the domestic steel fabrication industry. The ratings also factor in the low counterparty credit risk, given the company's reputed customer base with a track record of repeat business. Further, the company has an unexecuted order book position of Rs. 170 crore as on December 31, 2023, which is expected to increase further with the addition of new orders, providing near-term revenue visibility. The ratings further derive strength from the comfortable gearing of 0.7 times as on March 31, 2023 and the healthy debt coverage metrics.

However, the ratings are constrained by the company's moderate scale of operations, with revenues of ~Rs. 146 crore in 9M FY2024. The ratings are also constrained by the order book concentration risk as the top two orders constituted ~86% of the pending order book as of December 2023. Moreover, its profitability remains exposed to the volatility in raw material prices and intense competition.

The Stable outlook on the [ICRA]BBB-rating reflects ICRA's opinion that KIPL will continue to maintain its credit profile, backed by an adequate order book and comfortable capital structure and debt coverage indicators.

Key rating drivers and their description

Credit strengths

Established presence in steel fabrication business - KIPL's promoters have extensive experience in the steel fabrication and pre-engineered building business. Over the years, the promoters have established strong relationships with its clients, which have helped the company in getting repeat business. Its client profile comprises strong and reputed players, which renders low counterparty risk.

Order book position provides near-term revenue visibility - The company has an unexecuted order book of ~Rs. 170 crore as on December 31, 2023, which provides near-term revenue visibility. The order book position is expected to increase further in FY2025 with the addition of new orders. The company's revenue is expected to grow in FY2024 and FY2025, driven by a confirmed order book position and new orders in the pipeline in the PEB segment.

Comfortable capital structure and debt protection metrics - KIPL's margins improved to 7.5% in FY2023 from 5.7% in FY2022 on account of a reduction in raw material prices. The margins are expected to remain around 7.5-8% in FY2024. The company's financial risk profile is comfortable with a gearing of 0.7 times and TOL/TNW of 1.3 times as on March 31,2023 and is expected to remain at similar levels in FY2024. Further, the coverage indicators are also comfortable, indicated by an interest coverage of 3.0 times and total debt/ OPBDITA of 2.3 times in FY2023. With the expected improvement in scale and profitability and the absence of any major debt-funded capex, the debt coverage metrics are expected to improve in FY2024.

Credit challenges

Intense competition - KIPL's overall scale of operations remains moderate, with revenues of Rs. 173 crore in FY2023 and ~Rs. 146 crore in 9M FY2024. Further, the fabrication/engineering segment is highly competitive and fragmented, with the presence of numerous small and large players. Moreover, the company's railway segment is a tender-driven business, which impacts pricing flexibility. However, the low counterparty risk and repeat orders from the clients give the company business stability.

High order book concentration risk - KIPL is exposed to high order book concentration risk, as the top two orders constituted ~86% of the pending order book as of December 2023. In the past, the company faced issues such as deferment of the ongoing contracts, which remain a risk. Further, railway orders and the PEB segment together account for 100% of the unexecuted order book, which exposes the company's cash flows to the capex cycle of these segments.

Susceptibility of profitability to volatility in raw material prices - The company's profitability remains vulnerable to the volatility in raw material prices (mainly steel). KIPL's operating margins have been fluctuating between 5.7% and 10% over the past three years, primarily due to fluctuations in raw material costs and the inability of the company to pass on the increase in raw material prices. After witnessing a sharp decline in margins in the last fiscal due to the fluctuations in raw material prices, the company introduced a price variation clause for the railway division. Moreover, certain established clients have also agreed to the inclusion of a price variation clause for future orders. This is expected to protect its margins against input cost fluctuations to some extent.

Liquidity position: Adequate

The company's liquidity is adequate in the absence of any major capital expenditure and undrawn fund-based lines of Rs. 6.5 crore as of February 2024. KIPL has a scheduled debt repayment obligation of ~Rs. 1.7 crore in FY2025, which should be adequately serviced from its operating cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade KIPL's ratings if the company demonstrates a sustained improvement in its scale of operations and profitability, thereby improving the overall financial risk profile and liquidity position.

Negative factors – ICRA may downgrade the ratings if a substantial decline in the scale of operations, or weakening in profitability levels, or any large debt-funded capex, or a stretch in the working capital cycle adversely impacts the liquidity profile and key credit metrics. A specific credit metric that could lead to a downgrade is an interest coverage ratio of less than 2.80 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

KIPL was incorporated in 2013 by Mr. Anantha Reddy and the commercial operations started in April 2014. The company manufactures fabrication equipment, steel building components, railway coaches, solar module mounting structures, metal crash barriers, guard rails etc and has an installed capacity of 36,000 MTPA. The company's manufacturing unit is at Sadasivpet, Telangana. KIPL supplies fabricated steel structures for steel buildings, pre-engineered buildings, highways, road construction, railways, general, engineering & fabrication and solar power projects.

Key financial indicators (audited)

KIPL Standalone	FY2022	FY2023
Operating income	200.1	173.0
PAT	4.1	4.0
OPBDIT/OI	5.7%	7.5%
PAT/OI	2.0%	2.3%
Total outside liabilities/Tangible net worth (times)	1.4	1.3
Total debt/OPBDIT (times)	2.9	2.3
Interest coverage (times)	4.3	3.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA:

CRA	Status	Date of release
BWR	[BWR]B(Stable)/BWRA4; ISSUER NOT COOPERATING	July 21, 2023

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 Mar 28, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	Jul 07, 2023	Sep 13, 2022	Sep 27, 2021	Apr 19, 2020
1	Cash credit	Long term	32.00	--	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term loans	Long term	3.02	3.02	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Bank guarantee	Short term	40.00	--	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Unallocated	Long term and short term	11.98	--	[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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long-term fund-based – Term loans	Simple
Short term – Non-fund based - Bank guarantee	Very Simple
Long term/Short term unallocated	Not applicable

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	Cash credit	-	-	-	32.00	[ICRA]BBB-(Stable)
NA	Term loans	FY2017	-	FY2027	3.02	[ICRA]BBB-(Stable)
NA	Bank guarantee	-	-	-	40.00	[ICRA]A3
NA	Unallocated limits	-	-	-	11.98	[ICRA]BBB-(Stable)/[ICRA]A3

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

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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.

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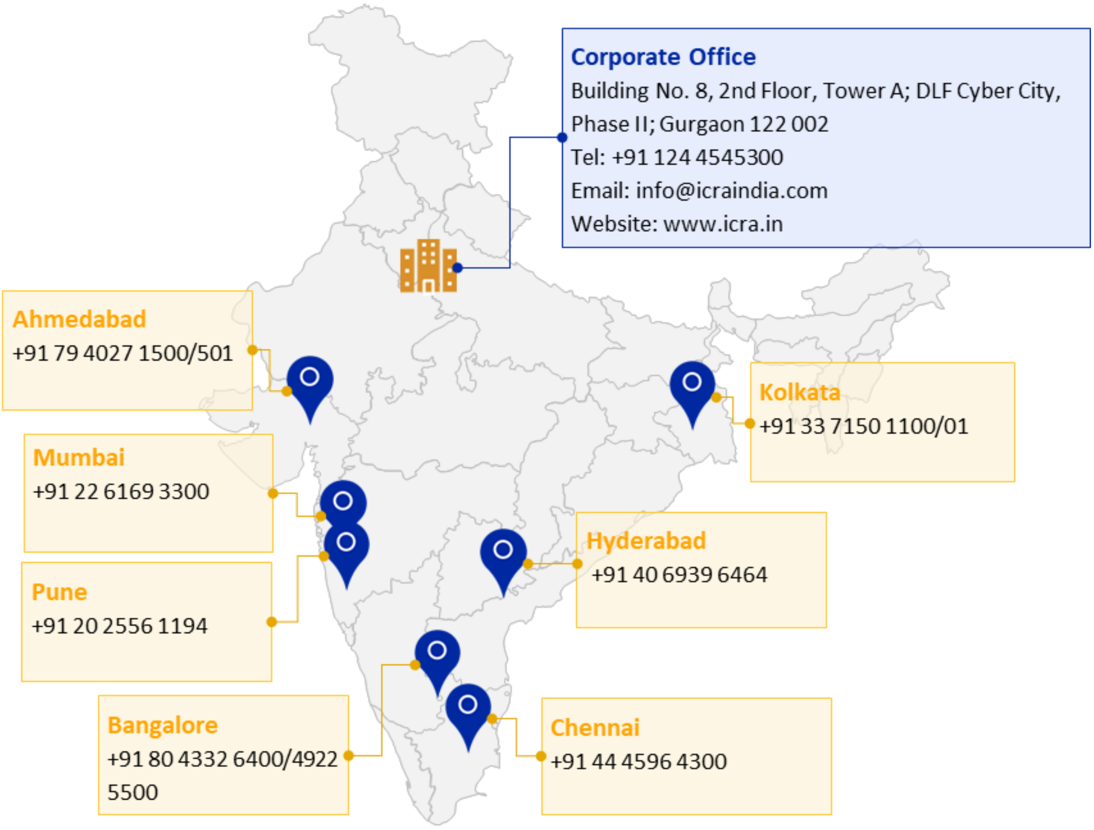

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