

September 09, 2022

Kirby Building Systems & Structures India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	25.00	19.00	[ICRA]AA-(Stable); reaffirmed
Non-fund based limits	1687.00	1827.00	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Unallocated limits	188.00	54.00	[ICRA]AA-(Stable) / [ICRA]A1+; reaffirmed
Total	1900.00	1900.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factor in Kirby Building Systems & Structures India Private Limited's (Kirby) market leadership position in the pre-engineered buildings (PEB) segment with a strong pan-India sales network and reputed clientele. The company has completed cumulative installations of around 8.43 lakh MT during the last six years (CY2016-CY2021); and fresh order intake was healthy at 1.71 lakh MT in CY2021 and 1.08 lakh MT during H1CY2022. With an expected improvement in the order intake, execution and higher net sales realisations, the revenues are likely to increase by around 11-14% in CY2022. The coverage indicators remained healthy with an interest coverage of 9 times in CY2021 and 7.2 times in H1CY2022 and are expected to remain healthy with lower reliance on debt despite capex plans and healthy operating profits. Kirby has been associated with diversified and reputed clients such as the Reliance Industries, MRF Limited, Amazon Seller Services Pvt Ltd, Asian Paints, Berger Paints etc, and has consistently received repeat orders from its customers. Kirby is a part of Kuwait based Alghanim Industries (AI), which has a significant experience of more than four decades in the global pre-engineered building (PEB) industry. The same is likely to remain healthy in the medium term.

The ratings are constrained by the moderation in the Total Outside Liabilities/Tangible Net Worth (TOL/TNW) due to consistently high dividend pay-outs and the sharp increase in steel prices. Increase in key raw material prices (steel), coupled with high inventory procurement, has translated to high gross current assets and, correspondingly, outside liabilities. Also, the net worth levels reduced by 50% in the last two years to Rs. 240 crore as on December 2021, from Rs. 479 crore as on December 2019, owing to the high dividend outflow. Consequently, the net TOL/TNW was high at 2.8 times as on December 2021. With continued dividend outflow (Rs. 100 crore dividends paid in Q2 CY2022) and elevated TOL levels; the leverage is likely to remain high in the near term. The reduced net worth has also affected the current ratio which is modest, at 1.1 times as on December 2021 and 1.0 times as on June 2022. While the company has unencumbered cash and bank balance of Rs. 426.0 crore as on June 2022, this primarily reflects the negative working capital cycle due to high level of customer advances and extended credit period against supplies. Despite the likely sizeable dividend outflow each year, the management intends to maintain cash and bank balances of around Rs. 300 crore consistently.

The ratings also factor in the demand cyclicity linked to private sector capex. The risk is further exacerbated on account of the prevailing high prices of steel, which may lead to deferment of capex decision by Kirby's clients. However, the diversified end-user industries of Kirby's products and increasing adoption of PEB structures mitigate the risk of demand slowdown to an extent. These apart, the ratings take into consideration the risks associated with adverse fluctuations in raw material prices. The operating margins were severely impacted with adverse fluctuation of steel prices during CY2021 and H1CY2022; nevertheless, profitability of the company going ahead will largely be protected from any adverse price fluctuations as majority of the new work orders are entered with in-built price variation clauses.

The Stable outlook on the [ICRA]AA- ratings reflects ICRA's belief that the company will continue to benefit from its market leadership position in the PEB manufacturing industry. Further, the liquidity is expected to remain healthy with sizeable cash and bank balances on the back of strong cash flow generation.

Key rating drivers and their description

Credit strengths

Market leader in domestic PEB industry with healthy order accretion: Kirby is the market leader in the PEB segment in India with total installed capacity of 2,12,000 MT. Further, it has an established track record in the PEB segment for around two decades, having a diversified sales network in India with sales offices in 22 cities. The order accretion has been healthy over the years and the company was able to receive sizeable orders of 1.70 lakh MT in CY2021 and 1.08 lakh MT in H1 CY2022. With an expected improvement in the order intake, execution and higher net sales realisations, the revenues are likely to increase by around 11-14% in CY2022.

Reputed and diversified customer portfolio with repeat orders: The company had completed large projects with cumulative installation of around 8.43 lakh MT during the last six years (CY2016-CY2021). KBSSIPL has been associated with diversified and reputed clients such as the Reliance Industries, MRF Limited, Amazon, Asian Paints., etc, and has consistently received repeat orders from its customers.

Comfortable coverage indicators: The coverage indicators remained healthy with interest coverage ratio of 9.1x in CY2021 and 7.2x in H1 CY2022. While the group has capex plans to the tune of Rs. 190-200 crore towards PEB capacity at the Gujarat unit and racking capacity at the Hyderabad unit, the debt reliance is low at Rs. 50 crore with the remaining funded through internal accruals.

Part of Alghanim Industries: KBSSIPL is a part of Kuwait-based Alghanim Industries (AI), which has multiple businesses with operations across various countries. AI has an experience of over 40 years globally in the PEB system design, fabrication and supply under the Kirby brand with five manufacturing facilities located in Kuwait, Ras-Al-Khaimah (the UAE), Vietnam and India.

Credit challenges

Consistent dividend outflows result in moderations in TOL/TNW and current ratio: The net TOL/TNW (adjusted for unencumbered cash) remained high at 2.8x times as on December 31, 2021, owing to sizeable outside liabilities and continued dividend outflow, which has constrained its net worth. The increase in key raw material (steel) prices coupled with the high inventory procurement has translated to high gross current assets and, correspondingly, outside liabilities. The net worth levels reduced by 50% in the last two years to Rs. 240 crore as on December 31, 2021, from Rs. 479 crore as on December 31, 2019, owing to a dividend outflow of Rs. 450 crore during this period. The company has paid dividend of Rs. 100 crore in Q2 CY2022 and the net worth stands at Rs 204.7 crore as on June 2022. The reduced net worth has also affected the current ratio which is modest, at 1.1 times as on December 2021 and 1.0 times as on June 2022. While the company has unencumbered cash and bank balance of Rs. 576.9 crore as on March 2022 and Rs. 426.0 crore as on June 2022, this primarily reflects the negative working capital cycle due to high level of customer advances and extended credit period against supplies. This also has resulted in high Total Outside Liabilities (TOL). The payables are backed by letters of credit, where interest beyond the interest free period is borne by Kirby. The company maintains high cash and bank balances to offset the high level of TOL. Despite the likely sizeable dividend outflow each year, the management intends to maintain cash and bank balances of around Rs. 300 crore consistently.

Margins vulnerable to fluctuations in raw material prices: The company is exposed to fluctuation in raw material prices. While the quarterly price fixation with suppliers, along with back-to-back arrangements, have supported the company to mitigate the risk to some extent, the significant increase in steel prices has resulted in a decline in operating margins to 10.1% in CY2021 and 8.4% in H1 CY2022 from 13.8% in CY2020 given that most of its order were fixed price in nature in the past. However, with

the company starting to incorporate price variation clauses for large orders since November 2021, these are likely to support margins going forward.

Revenues exposed to variability in investments by private sector: Kirby’s revenues are dependent on the capital investments across key-user industries. The risk is further exacerbated on account of the prevailing high prices of steel, which may lead to deferment of capex decision by Kirby’s clients. However, the diversified end-user industries of Kirby’s products and increasing adoption of PEB structures mitigates the risk of demand slowdown to an extent and the current order book comprises orders from diverse sectors such as e-commerce, logistics, warehousing etc.

Liquidity position: Adequate

Kirby’s liquidity position is adequate with working capital requirements funded through trade payables and customer advances. While the unencumbered cash and liquid investments stood at Rs. 426.0 crore as on June 2022, the current ratio is modest - at 1.0x. The company’s estimated capex of around Rs. 160 crore in CY2022 will be funded by mix of debt and internal accruals. There are nil debt repayments for CY2022.

Rating sensitivities

Positive factors – ICRA could upgrade Kirby’s ratings if there is a substantial growth in revenues and earnings along with a significant improvement in the capitalization ratios, liquidity position and ALM. Specific credit metrics for an upgrade include net TOL/TNW is lower than 1.5 times on sustained basis.

Negative factors – The ratings may witness pressure if any material decline in revenues or earnings and higher-than estimated capex or dividends, lead to a weakened liquidity position. A specific credit metric for a downgrade is if net TOL/TNW is higher than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Kirby Building Systems & Structures India Private Limited. The company has one subsidiary that is enlisted in Annexure-2.

About the company

Incorporated in 2005, Kirby Building Systems & Structures India Private Limited is involved in manufacturing and erection of PEBs. The company is a wholly-owned subsidiary of Alghanim Industries (AI), based out of Kuwait, which has more than 30 businesses with operations in 40 countries. It has two manufacturing facilities located at Haridwar, Uttarakhand and Pashamylaram (near Hyderabad) in Telangana with an installed PEB manufacturing capacity of 1,00,000 MT per annum. In CY2018, it started manufacturing structural steel with an installed capacity of 12,000 MT per annum in Hyderabad. The company is setting up a new plant through its subsidiary Kirby Building Systems & structures India Gujarat Private Limited (KBSSIGPL) with an installed capacity of 40,000 tonnes in Halol, Gujarat, at an estimated cost of Rs. 150.0 crore. The same is expected to be funded by term loan of Rs.50.0 crore and balance through existing cash balances and internal accruals. The unit is expected to commence commercial operations by Jan 2023. Additionally, company is undertaking augmentation of its raking capacity by 20,000 MT with envisaged outlay of Rs. 40.0 crore to be funded through internal accruals.

Key financial indicators

	CY2020	CY2021	H1CY2022*
Operating Income (Rs. crore)	1,197.0	1726.7	1140.7
PAT (Rs. crore)	103.4	107.4	64.9
OPBDIT/OI (%)	13.8%	10.2%	8.4%
PAT/OI (%)	8.6%	6.2%	5.7%
Total Outside Liabilities/Tangible Net Worth (times)	3.5	4.3	7.01
Net Total Outside Liabilities/Tangible Net Worth (times)^	1.9	2.8	4.9
Total Debt/OPBDIT (times)	0.05	0.03	0.03
Interest Coverage (times)	10.2	9.0	7.2

*Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

^ Adjusted for unencumbered cash and bank balances

Source: Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	
					Sep 09, 2022	May 06, 2022	Oct 14,2021	May 21,2021	Nov 12,2020	May 26,2020	Aug 07,2019	May 30,2019
1	Cash Credit	Long-term	19.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Non-Fund Based Limits	Long-term /Short-term	1827.00	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-
3	Non-Fund Based Limits	Short-term	-	-	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated Limits	Long-term /Short-term	54.00	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term/ Short -term – Non-Fund Based Limits	Very Simple
Long-term/ Short -term – Unallocated Limits	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: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	--	--	--	19.00	[ICRA]AA- (Stable)
-	Non-Fund Based Limits	--	--	--	1827.00	[ICRA]AA- (Stable)/[ICRA]A1+
-	Unallocated Limits	--	--	--	54.00	[ICRA]AA- (Stable)/[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Kirby Ownership	Consolidation Approach
Kirby Building Systems & Structures India (Gujarat) Private Limited	100.00%	Full Consolidation

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