

February 28, 2025

KL Hi-Tech Secure Print Limited: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2

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); upgraded from [ICRA]BBB (Stable)
Long-term/Short-term - Non-fund based limits	26.62	33.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; upgraded from [ICRA]BBB (Stable)/ [ICRA]A3+
Long-term - Fund-based - Term loans	10.38	1.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB (Stable)
/Total	62.0	59.00	

*Instrument details are provided in Annexure I

Rationale

The ratings upgrade factors in the strong revenue growth, along with improvement in profitability margins of KL Hi-Tech Secure Print Limited (KHSPL) on account of healthy order execution, along with increased sales realisation, which is expected to sustain over the medium term. The operating income (OI) grew by 33% in FY2024 compared to FY2023, which coupled with rise in margins as well as sharp reduction in debt levels due to repayment of unsecured loans led to a considerable improvement in the financial risk profile with interest coverage of 9.4 times in FY2024 against 2.9 times in FY2023, with Debt/OPBDIT of 0.5 times from 3.0 times in FY2023. Given the healthy profitability margins and low debt levels, and lack of any planned debt-funded capex the debt coverage indicators are expected to remain healthy in the medium term. The ratings factor in KHSPL's established track record in the secure 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, however, are constrained by the susceptibility of profitability margins to volatility in raw material prices, coupled with the fixed-price nature of the contracts. Nonetheless, the short execution cycle of the orders mitigates the risk to an extent. The ratings note its capital-intensive nature of operations and the requirement to incur capex every year to upgrade machinery to ensure security compliances and to meet evolving technology needs and add new products constraining its free cash flows to an extent. ICRA notes the stiff competition in banking, telecom cards and bank stationary segments, characterised by the presence of a large number of players, which is likely to constrain the expansion of operating margins to an extent. The ratings are constrained by the moderate client concentration risk with top five customers accounting for 57% of FY2024 revenues and is expected to remain at these levels, given that top 5 orders constitute 68.5% of the order book as on December 12, 2024.

The Stable outlook on the rating reflects ICRA's opinion that the company will be able to sustain its credit profile on the back healthy order book position and healthy margin profile resulting in solid debt coverage metrics.

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 diversified into providing end-to-end secure print services offering security printing, digital printing, banking cards, smart cards, recharge cards, examination solutions, 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 and timely receipt of payments from its key customers has been supporting its liquidity position.

Improved financial risk profile – The OI increased to Rs. 260.6 crore in FY2024 from Rs. 196.4 crore in FY2023. It is expected to be at range-bound levels in the near term. Further, the operating margins improved to 15.0% in FY2024 from 8.0% in FY2023 and is expected to remain at above 15% levels in FY2025. The financial risk profile improved with interest coverage at 9.4 times in FY2024 and Debt/OPBDIT declining to 0.5 times in FY2024 owing to improved operating profits and decline in debt levels, due to repayment of unsecured loans. Given the healthy profitability margins and low debt levels, the debt coverage indicators are expected to remain in healthy range in the medium term.

Credit challenges

Operating margins susceptible to fluctuation in raw material prices – The printing industry's profitability margins are volatile owing to fluctuations in raw material prices and fixed price nature of the contracts. Raw material costs account for more than 65% of the company's OI and the key raw materials include papers, hologram, chip, etc. Nonetheless, the short execution cycle of orders mitigates the risk to an extent.

Free cash flows constrained owing to 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. It incurred a total capex of Rs. 12.6 crore in FY2024 and expects to incur more than Rs.15.0 crore in FY2025 to upgrade its machinery constraining its free cash flows. However, the entire capex requirements are met by internal accruals resulting in contained debt levels.

Intense competition in industry – The printing and banking cards segment remain highly fragmented with a large number of players operating in the industry. This leads to significant competition among the existing players. The companies operating in this space lack any pricing power due to tender nature of the business and limited product differentiation.

Liquidity position: Adequate

The company’s liquidity position is adequate with moderate utilisation of 62.3% in working capital limits during the past thirteen months ending January 2025. Further, low repayments of Rs. 1.3 crore in FY2025 and timely realisation of payments are likely to support its liquidity position in the near term. It has moderate capex plans of Rs. 10.0 crore in FY2026.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant improvement in the company’s scale of operations while maintaining its profitability margins and debt protection metrics, along with improvement in 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 Total debt/ OPBITDA increasing to more than 2.5 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. Over the years, KHSPL has diversified into providing end-to-end secure print services offering security printing, digital printing, banking cards, smart cards, recharge cards, examination solutions, 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.

Key financial indicators (audited)

KHSPL (Standalone)	FY2023	FY2024
Operating income	196.4	260.6
PAT	3.5	22.2
OPBDIT/OI	8.0%	15.0%
PAT/OI	1.8%	8.5%
Total outside liabilities/Tangible net worth (times)	1.7	1.1
Total debt/OPBDIT (times)	3.0	0.5
Interest coverage (times)	2.9	9.4

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 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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Feb 28, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long-term-Cash credit-Fund-based	Long Term	25.00	[ICRA]BBB+ (Stable)	Feb 27, 2024	[ICRA]BBB (Stable)	Nov 14, 2022	[ICRA]BBB (Stable)	October 05, 2021	[ICRA]BBB (Stable)
				-	-	Feb 03, 2023	[ICRA]BBB (Stable)	-	-
Long-term-Term loan-Fund-based	Long Term	1.00	[ICRA]BBB+ (Stable)	Feb 27, 2024	[ICRA]BBB (Stable)	Nov 14, 2022	[ICRA]BBB (Stable)	October 05, 2021	[ICRA]BBB (Stable)
				-	-	Feb 03, 2023	[ICRA]BBB (Stable)	-	-
Long-term / short-term-Bank guarantee-Non-fund based	Long Term/ Short Term	33.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	Feb 27, 2024	[ICRA]BBB (Stable)/[ICRA]A3+	Nov 14, 2022	[ICRA]BBB (Stable)/[ICRA]A3+	October 05, 2021	[ICRA]BBB (Stable)/[ICRA]A3+
				-	-	Feb 03, 2023	[ICRA]BBB (Stable)/[ICRA]A3+	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term - Fund-based limits - Cash credit	Simple
Long-term/Short term - Non-fund based limits	Very Simple
Long-term - Fund-based - Term loans	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	33.00	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Fund-based - Term loan	January 2021	NA	December 2025	1.00	[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

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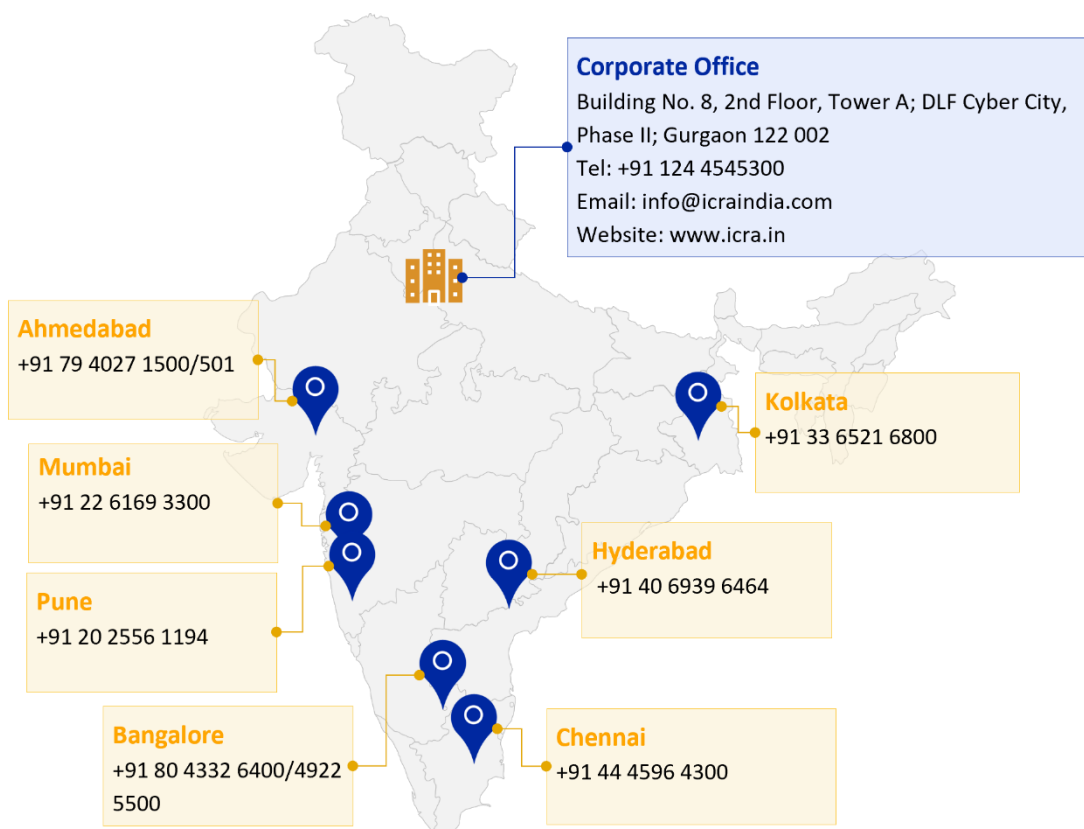
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