

Kala Jyothi Process Pvt. Ltd.

April 04, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital	19.00	[ICRA]BBB-(Stable); Assigned
Fund Based – Term Loans	14.27	[ICRA]BBB-(Stable); Assigned
Unallocated Limits	0.43	[ICRA]BBB-(Stable)/[ICRA]A3; Assigned
Total	33.70	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in the established presence of Kala Jyothi Process Private Ltd (KJPPL) in the printing industry for more than 7 decades with diversified presence in printing of magazines, books, annual reports, newspapers, packaging boxes etc; and diverse and reputed clientele with top 10 customers accounting for 31% of total revenues in FY2018. The ratings also consider increase in operating income from Rs 71.0 crore in FY2014 to Rs 97.6 crore in FY2018 owing to increased revenues from printing division along with increased income from rental division; moderate operating margins in the range of 14-18% over the last five years barring FY2018 when the margins declined to 8% mainly due to one-time expenses; and comfortable financial risk profile with gearing at 0.75 times as on December 31, 2018, interest coverage of 3.98 times and NCA/TD of 64% for 9MFY2019. In FY2018 and 9MFY2019, the company has received around Rs 50.00 crore from sale of flats from the land given on development which was primarily used to reduce working capital debt and creditor levels.

The ratings are however constrained by high working capital intensity with NWC/OI at 22% and 31% for FY2018 and 9MFY2019 respectively owing high debtor and inventory days and significant repayment obligations of Rs 12-13 crore (both principal and interest) over FY2020 and FY2021. However, the expected cash accruals including the fixed rental income of Rs 8.80 crore would be comfortable for servicing the repayment obligations in the medium term. The ratings are also constrained by exposure of profitability to volatility in raw material prices and significant competition in the printing industry with the presence of large number of players along with threat from alternate digital media like e-books and e-newspapers. Further, the company has capex plans of around Rs 40.00 crore towards setting up a new unit in Andhra Pradesh which is planned to be funded by ~Rs 10.00-12.00 crore of debt and remaining from internal accruals and interest free advances from customers.

Outlook: Stable

The stable outlook reflects ICRA belief that Kala Jyothi Process Pvt. Ltd. will continue to benefit from its established presence in the printing industry for more than seven decades. The outlook may be revised to 'Positive' if there is substantial growth in revenues, improvement in operating margins and liquidity position. The outlook may be revised to 'Negative' if there is larger than estimated capex weakening the capital structure and coverage metrics, decline in revenues or dip in operating margins weakening the liquidity position.

Key rating drivers

Credit strengths

Established operational track record of more than 7 decades in printing business: The company has been in the printing business for more than seven decades since 1946. Over the years, it has established its brand name in the industry with diversified presence in printing of magazines, books, annual reports, newspapers, packaging boxes, etc.

Reputed client base and moderate customer concentration risk: The company has a diverse and reputed clientele like Bennett Coleman Co. Ltd, Haymarket SAC Publications (P) Ltd, Kasturi & Sons Limited etc. associated for more than three years. The customer concentration risk is moderate with top 10 customers accounting for 31% of total revenues in FY2018.

Comfortable financial risk profile: The financial risk profile is comfortable with gearing at 0.75 times as on December 31, 2018; interest coverage of 3.98 times and NCA/TD of 64% for 9MFY2019. Further, the company is receiving fixed annual rental income of Rs 8.80 crore apart from the revenues generated from printing division. The company also received around Rs 50.00 crore from sale of flats in FY2018 and 9mFY2019 from the land given on development which has significantly reduced working capital debt and creditor levels.

Credit weaknesses

High working capital intensity: The working capital intensity is high with NWC/OI at 22% and 31% for FY2018 and 9MFY2019 respectively owing high debtor and inventory days. The debtors of the company have remained high at 78 days in 9MFY2019 owing to 60-75 days of credit period offered to customers. KJPPL maintains 45 days inventory of major raw material paper.

Large repayment obligations in the medium term: The company has significant repayment obligations of Rs 12-13 crore (both principal and interest) over FY2020 and FY2021. However, the cash accruals including the fixed rental income of Rs 8.80 crore would be comfortable for servicing repayment obligations. The company has capex plans of around Rs 40.00 crore towards setting up a new unit in Andhra Pradesh which is planned to be funded by ~Rs 10.00-12.00 crore of debt and remaining from internal accruals and interest free advances from customers. The debt funded capex plans would adversely impact the capital structure and coverage metrics in the medium term.

Exposure of profitability margins to volatility in raw material prices: The main raw material for KJPPL is paper, and paper accounts for around 70% of the total production cost. The operating margins are exposed to volatility in price paper. The fluctuation in raw material price impacted operating margins in FY2018. The operating margins from printing division is expected to be at 10-11% in next two years.

High competition and threat from alternative digital media: The company faces significant competition in the printing industry with the presence of large number of players. Further, increased use of e-books and e-newspapers could be a major threat for the printing industry reducing the demand for printing business to an extent.

Liquidity Position:

The working capital utilization is moderate at 47% due to healthy accruals of Rs ~25.00 crore each in FY2018 and 9MFY2019 from sale of flats. The company has cushion available in the form of undrawn working capital limits. Although the company has significant repayment obligations of Rs. 12-13 crore in the medium term, the expected cash accruals including the fixed rental income of Rs 8.80 crore would be comfortable for servicing the repayment obligations.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

Kala Jyothi Process Pvt. Ltd. (KJPPL) is a multi-dimensional printing press, with a track record of over seven decades in printing industry. It was founded by Late Mr. A. Ravindranath in early 1946 in the name M/s. Jyothi Press at Tenali, in Guntur District of Andhra Pradesh and later it was moved to Hyderabad in 1957. In the month of September 1989, it has been registered in the name of Kala Jyothi Process Pvt. Ltd. KJPPL carries out printing process for various segments comprising magazines, newspapers, journals, text books, annual reports, calendars etc. through their printing units two of which situated at Hyderabad and one at Mumbai. The unit located in Hyderabad (RTC X Roads) uses sheet fed printing technology and unit located in Hyderabad (Kondapur) uses sheet fed and web fed printing technology. The unit in Mumbai was established in 2007 and uses both sheet fed and web fed printing technology. The company is setting up a new unit with a capex of ~Rs. 40.00 crore in Andhra Pradesh.

Key Financial Indicators

	FY2017	FY2018	9MFY2019*
Operating Income (Rs. crore)	89.40	97.79	71.16
PAT (Rs. crore)	0.08	16.48	-
OPBDIT/ OI (%)	13.96%	8.04%	18.82%
RoCE (%)	6.64%	24.86%	27.42%
Total Debt/ TNW (times)	1.68	0.94	0.75
Total Debt/ OPBDIT (times)	5.45	6.83	3.32
Interest coverage (times)	2.09	1.10	3.98

* Provisional; Source: Annual Reports and ICRA Research;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount	Amount	Date & Rating April 2019	Date & Rating in	Date & Rating in	Date & Rating in
		(Rs. crore)	(Rs Crore)		FY2019 October 2018	FY2018 April 2018	FY2017 July 2017
1	Fund Based – Working Capital Limits	19.00	-	[ICRA]BBB-(Stable)	-	-	-
2	Fund Based - Term Loan Limits	14.27	14.27	[ICRA]BBB-(Stable)	-	-	-
3	Unallocated Limits	0.43	-	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Secured Overdraft	-	-	-	19.00	[ICRA]BBB- (Stable)
NA	Term Loan 1	Sep-2016		Nov-2021	1.18	[ICRA]BBB- (Stable)
NA	Term Loan 2	Sep-2016		Feb-2022	7.96	[ICRA]BBB- (Stable)
NA	Term Loan 3	Sep-2015		Sep-2020	2.25	[ICRA]BBB- (Stable)
NA	Term Loan 4	Sep-2015		Sep-2020	7.75	[ICRA]BBB- (Stable)
NA	Unallocated Limits				0.43	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Kala Jyothi Process Pvt Ltd

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