

July 19, 2023

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	19.0	19.0	[ICRA]AA- (Stable); reaffirmed
Non-fund based limits	1877.0	1877.0	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Unallocated limits	4.0	4.0	
Total	1900.0	1900.0	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of ratings factor in Kirby Building Systems & Structures India Private Limited's (Kirby) expected healthy growth in volumes by ~10% YoY in CY2023, backed by healthy order accretion and ramp-up in the recently commenced Gujarat plant in March 2023. The company reported a healthy unexecuted order book of ~1.0 lakh MT as of April 2023 and is estimated to add ~2.0-2.05 lakh MT new orders in CY2023. In H1 CY2023, it reported healthy consolidated revenues of Rs. 1,219.7 crore and improvement in operating margins to 11.8% (CY2022: 9.8%) on the back of softening of steel prices. Kirby is likely to report 3-5% YoY growth in revenues and operating margins of 10.5%-11.5% in CY2023. The coverage indicators remained healthy with an interest coverage of 7.4 times in CY2022 and 8.5 times in H1 CY2023 and are expected to remain healthy with lower reliance on debt. The rating considers Kirby's market leadership position in the pre-engineered buildings (PEB) segment with a strong pan-India sales network and reputed clientele. 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 the Kuwait-based Alghanim Industries (AI), which has a significant experience of more than four decades in the global PEB industry.

The ratings are constrained by high Total Outside Liabilities/Tangible Net Worth (TOL/TNW) due to high creditors and reduced net worth. The net worth levels reduced by 42% over the last three years to Rs. 274.8 crore as of December 2022, from Rs. 479.2 crore as of December 2019, owing to the high dividend outflow. The reduced net worth impacted the current ratio, which remained modest at 1.14 times as of June 2023. The total outside liabilities remained high with the working capital requirements primarily met by trade payables and advances from customers. With estimated improvement in its revenues and operating margins in CY2023 and no dividend outflow in CY2023, the net TOL/TNW¹ is expected to improve to 1.75-1.85 times as of December 2023 (PY: 3.0 times), however, it continues to remain high and remains a key monitorable. While the company has unencumbered cash and bank balance of Rs. 472.9 crore as on June 30, 2023, this is primarily on account of negative working capital cycle owing to high level of customer advances and extended credit period against supplies. Despite the likely sizeable dividend outflow each year from CY2024, the management intends to maintain cash and bank balances of around Rs. 350-400 crore on a sustained basis.

The ratings factor in the vulnerability of its revenues to variability in investments by the private sector. 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 consider the risks associated with adverse fluctuations in raw material prices.

¹ net TOL/TNW = (TOL-unencumbered cash)/TNW

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 adequate 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; part of Alghanim Industries – Kirby is the market leader in the PEB segment in India with a 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. It received sizeable orders of 1.7 lakh MT in CY2021, 2.0 lakh MT in CY2022 and 0.5 lakh MT in Q1 CY2023. Kirby 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.

Reputed and diversified customer portfolio with repeat orders – The company has an unexecuted order backlog of ~1.0 lakh MT as on April 30, 2023 and is expected to add ~2.0-2.05 lakh MT new orders in CY2023. It has been associated with diversified and reputed clients such as Reliance Industries, MRF Limited, Amazon, Asian Paints, etc, and has consistently received repeat orders from its customers.

Healthy growth in OI with comfortable coverage indicators – The revenues grew by ~35% YoY in CY2022, backed by an increase in sales realisation of 20%, coupled with growth in sales volume by 12%. The company is expected to witness healthy growth in volumes by ~10% YoY in CY2023 backed by healthy order accretion and ramp-up in the recently commenced Gujarat plant in March 2023. In H1 CY2023, it reported healthy consolidated revenues of Rs. 1,219.7 crore and improvement in operating margins to 11.8% (CY2022: 9.8%) on the back of softening of steel prices. The company is estimated to report 3-5% YoY growth in revenues and operating margins of 10.5%-11.5% in CY2023. The coverage indicators remained healthy with interest coverage of 7.4 times in CY2022 and 8.5 times in H1 CY2023 and are likely to remain healthy with lower reliance on debt.

Credit challenges

High net TOL/TNW and modest current ratio – The net TOL/TNW remains high due to high creditors and reduced net worth. The net worth levels reduced by 42% over the last three years to Rs. 274.8 crore as of December 2022, from Rs. 479.2 crore as of December 2019, owing to the high dividend outflow. The reduced net worth impacted the current ratio, which remained modest at 1.14 times as of June 2023. The total outside liabilities remained high with the working capital requirements primarily met by trade payables and advances from customers. With an estimated improvement in revenues and operating margins in CY2023 and no dividend outflow in CY2023, the net TOL/TNW is expected to improve to 1.75-1.85 times as of December 2023 (PY: 3.0 times), however, it continues to remain high and remains a key monitorable.

Margins vulnerable to fluctuations in raw material prices – Kirby is exposed to fluctuation in raw material prices. The quarterly price fixation with suppliers, along with back-to-back arrangements, have supported the company to mitigate the risk to some extent. Nevertheless, significant increase in steel prices resulted in a decline in operating margins to 10.0% in CY2021 and 9.0% in CY2022 from 13.4% in CY2020, given that most of its orders are fixed price in nature.

Revenues exposed to variability in investments by private sector – Kirby's revenues are dependent on the capital investments across key user industries. However, the diversified end-user industries of its products and increasing adoption of PEB structures mitigates the risk of demand slowdown to an extent. Its 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 the working capital requirements funded through favourable credit terms with suppliers and customer advances. While the unencumbered cash and liquid investments stood healthy at Rs. 472.9 crore as of June 2023, the current ratio remained modest at 1.14 times. The company has capex plans of around Rs. 60.0 crore in CY2024 towards increasing capacity at Gujarat plant and will be funded by internal accruals. It has debt repayment obligations of Rs. 4.0 crore in CY2023 and Rs. 10.0 crore in CY2024, which can be comfortably serviced through its estimated cash flow from operations.

Rating sensitivities

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

Negative factors – The ratings may witness pressure if any material decline in revenues or earnings and higher-than-estimated capex or dividends, result in a weakened liquidity position. A specific credit metric for a downgrade include net TOL/TNW 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 as mentioned in Annexure-II.

About the company

Incorporated in 2005, Kirby Building Systems & Structures India Private Limited is involved in manufacturing and erection of PEBs. It is a wholly-owned subsidiary of Alghanim Industries (AI), based out of Kuwait, which has more than 30 businesses with operations in 40 countries. Kirby has two manufacturing facilities located at Haridwar, Uttarakhand and Pashamylaram (near Hyderabad) in Telangana, with a cumulative installed PEB manufacturing capacity of 2,00,000 MT per annum. In CY2018, it started manufacturing structural steel with an installed capacity of 12,000 MT per annum in Hyderabad. The company has set up a new plant through its subsidiary Kirby Building Systems & Structures India Gujarat Private Limited (KBSSIGPL). It has an installed capacity of 40,000 tonnes in Halol, Gujarat and commenced operations in March 2023.

Key financial indicators

Consolidated	CY2021	CY2022	H1 CY2023*
	Audited	Audited	Provisional
Operating income (Rs. crore)	1,724.8	2,312.4	1,219.7
PAT (Rs. crore)	106.9	133.5	97.0
OPBDIT/OI (%)	10.0%	9.0%	11.8%
PAT/OI (%)	6.2%	5.8%	8.0%
Total outside liabilities/Tangible net worth (times)^	2.8	3.0	2.2
Total debt/OPBDIT (times)	0.03	0.2	0.2
Interest coverage (times)	8.9	7.4	8.5

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

*^TOL adjusted for cash and bank balances
Source: Company, ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years									
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023				Date & rating in FY2022		Date & rating in FY2021		
					Jul 19, 2023	Jan 20, 2023	Oct 06, 2022	Sep 09, 2022	May 06, 2022	Oct 14, 2021	May 21, 2021	Nov 12, 2020	May 26, 2020
1	Cash credit	19.0	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Non-fund based limits	1877.0	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[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	-	-	-	-	-	-	-	-	-	-	-	[ICRA]A1+
4	Unallocated limits	4.0	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[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+

Complexity level of the rated instruments

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: [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	NA	NA	NA	19.0	[ICRA]AA- (Stable)
NA	Non-fund based limits	NA	NA	NA	1877.0	[ICRA]AA- (Stable)/[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	4.0	[ICRA]AA- (Stable)/[ICRA]A1+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

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

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