

## Kent RO Systems Limited

Instrument	Amount	Rating	Outlook
Long-term fund-based limit-cash credit	Rs. 10.00 crore	[ICRA]AA-	Stable
Long-term non-fund based	Rs. 0.50 crore	[ICRA]AA-	Stable
Short-term non-fund based	Rs. 5.00 crore	[ICRA]A1+	-

ICRA has assigned its long-term rating of [ICRA]AA- (pronounced double A minus) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 15.50 crore of bank facilities of Kent RO Systems Limited<sup>1</sup> (Kent RO). The outlook of the long term rating is 'Stable'.

ICRA's ratings takes into account Kent RO's strong market position in the domestic residential RO water purifier market, supported by its pan India presence through established network of dealers and distributors and service centres, enabling it to achieve healthy volume growth. Further, long standing experience of the promoters in the water purification industry and their established relationship with the suppliers helps to ensure uninterrupted supplies of key raw materials. ICRA believes that the growth prospect of the company is favorable, given the low penetration level of water purifiers in the Indian market especially in the rural market.

While assigning the ratings, ICRA has also factored in the robust growth in Kent RO's topline, driven by healthy growth in the sales volumes (CAGR of ~30%). Kent RO has been able to maintain healthy operating profit margins on the back of premium pricing, healthy demand growth coupled with several fiscal incentives. The existing two plants of the company are availing fiscal benefits such as income tax deduction u/s 80IC and excise duty exemption. The incentives for the first unit are expiring in FY2017, whereas incentives will continue till FY2020 for the second unit. Financial profile of the company is strong with low gearing, robust coverage indicators, healthy cash flows and efficient working capital management. Currently, the company is expanding its production capacity by setting up a greenfield manufacturing facility at Greater Noida, Uttar Pradesh, which is expected to be operational by December 2017. The capex is being financed through internal cash accruals; therefore, capital structure will remain comfortable while topline is expected to get an impetus. In the past, the company has utilised cash flows for building offices and expanding its production capacities.

The rating strengths are however offset by high dependence on a single product i.e. water purifiers. Although, Kent RO has diversified its product portfolio with the launch of products such as air purifiers, vegetable and fruits purifiers, and other home appliances, their contribution to the total revenue remains relatively low. Further, the ratings also take into consideration the intense competition due to the entry of new players in the market, which is likely to exert pressure on the margins and pricing strategy.

Going forward, the ability of the company to maintain its volume growth and margins will be the key rating sensitivities. Any significant dividend payouts or sizable debt-funded capex will be rating monitorables.

### Company Profile

Kent RO was established as a partnership concern by Mr. Mahesh Gupta and family in 1999 to manufacture water purifiers with reverse osmosis (RO) technology. Later, the concern was converted into a closely held public limited company in 2007. Kent RO is promoted by Mr. Mahesh Gupta and his son Mr. Varun Gupta, both of whom are actively involved in the overall management of the company. The company has two manufacturing plants situated at Uttarakhand with an area spread across 3,50,000 sq. feet. Both the units enjoy fiscal incentives such as deduction under section 80IC of the income tax and exemption from excise duty. The company is one of the early entrants in the RO water purifier industry in India and hence enjoys significant market share. Kent RO manufactures water purifiers based on RO, Ultraviolet (UV) and gravity technology in its two facilities situated at Uttarakhand. Apart from water purifiers, Kent also deals in other products such as fruit and vegetable purifiers, air purifier, water softener, vacuum cleaner and juicer. It has a wide network of distributors and dealers spread across India (barring a few north eastern states). The company has wide service network of 1500+ service partners, spread throughout India, with 28 service centers managed and owned by Kent RO itself. The company has been focusing primarily on the domestic market and made a negligible exports in FY2016 to Bangladesh, Sri Lanka, Gulf Countries and African countries.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

*For further details, please contact:*

*Analyst Contacts:*

**Mr. Sabyasachi Majumdar** (Tel. No. +91 124 4545304)  
sabyasachi@icraindia.com

**Mr Manish Ballabh** (Tel. No. +91 124 4545 812)  
manish.ballabh@icraindia.com

**Mr. Amit Arora** (Tel. No. +91 124 4545 318)  
amita@icraindia.com

**Arun Kumar** (Tel. No. +91 124 4545 873)  
arun.kumar@icraindia.com

*Relationship Contacts:*

**Mr. Jayanta Chatterjee** (Tel. No. +91-80-43326401)  
jayantac@icraindia.com

© Copyright, 2016, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500