

Kopell Grounding Systems Private Limited

August 03, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term - Packing Credit Limit	3.50	3.50	[ICRA]A4; reaffirmed
Short Term - FOBP/ FOUBP/ FABC/ FOUNLNC (bill discounting)	5.00	5.00	[ICRA]A4; reaffirmed
Total Fund Based Limit	8.50	8.50	
Short Term – Bank Guarantee	0.25	0.25	[ICRA]A4; reaffirmed
Total Non-Fund Based Limit	0.25	0.25	
Short Term – Unallocated Limit	-	3.25	[ICRA]A4; assigned
Total Limit	8.75	12.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 8.50-crore¹ fund-based bank limits and Rs. 0.25-crore non-fund based bank facility of Kopell Grounding Systems Private Limited (KGSPL)². ICRA has also assigned a short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 3.25-crore unallocated limit.

Rationale

The rating continues to consider the company's exposure to significant client and geographical-concentration risks as around 84% of the total revenue was generated from the top-five customers and around 55% of the revenue was generated from the United States (US), in FY2018. The rating also considers the vulnerability of KGSPL's profitability to volatility in the prices of the raw materials viz. steel and copper, its exposure to fluctuations in the foreign currency exchange rates in the absence of any formal hedging mechanism as well as its small scale of current operations (although, KGSPL registered a considerable top-line growth in FY2018, aided by improved demand conditions). ICRA also notes that the entity's net worth and net profit at absolute levels continue to remain modest. The rating, however, continues to factor in the promoters' experience in the industry, established relationship with its customers and its acceptable product quality, as also reflected by quality accreditation received from internationally recognised certification bodies, leading to repeat orders.

In ICRA's opinion, the ability of the company to achieve further growth in its turnover while improving profit margins and managing the working capital efficiently would be the key rating sensitivities, going forward.

Outlook: Not applicable

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key Rating Drivers

Credit Strengths:

Experience of the promoters in the industry, acceptable product quality and established relationship with overseas customers lead to repeat orders - The company has a track record of more than a decade as an exporter of copper-bonded grounding (CBG) rods. KGSPL's clientele primarily comprises large overseas resellers of electrical goods. The company's established relationship with its clients and acceptable quality of its products translate into repeat orders. CBG, manufactured by the company, is approved by various quality certification bodies like Underwriters Laboratories (UL), Canadian Standards Association etc, which indicates acceptable product quality.

Relatively small scale of current operations although significant top-line growth registered in FY2018; net profit continues to remain modest at an absolute level - The company's operating income increased by around 24% to Rs. 33.05 crore in FY2018 from Rs. 26.61 crore in the previous year on the back of improvement in demand in the international market. In the first three months of the current fiscal, KGSPL has already registered a turnover of around Rs. 9.2 crore and ICRA expects the entity to achieve a top-line growth of around 20% in FY2019. The company's net profit at an absolute level in FY2018 continued to remain at a modest level despite the improvement witnessed over the previous fiscal and ICRA does not envisage any major fluctuation in the same during FY2019.

Credit challenges:

Significant client and geographical concentration risks - During FY2018, KGSPL's top-five customers accounted for 84% of the company's total turnover, and around 55% of the top-line was contributed by a couple of clients based out of the US, implying significant client and geographical concentration risks.

Vulnerability of profitability to any adverse fluctuation in raw material prices - Copper and mild steel rods are the key raw materials for production of CBG rods, which are procured by KGSPL from local sources. The company's cost of production remains exposed to the volatility in the prices of copper and steel.

Exposure to fluctuation in foreign exchange rates - The company's export realisations are denominated in the foreign currency (primarily USD), which keeps KGSPL vulnerable to adverse movements in the foreign exchange rates, in the absence of any formal hedging policy.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 2005, Kopell Grounding Systems Private Limited (KGSPL) is primarily involved in export of copper-bonded grounding rods and accessories to countries like the US, the UK, Spain etc. The products are approved by recognised quality certification bodies like Underwriters Laboratories (UL), Canadian Standards Association etc. In FY2013, KGSPL commissioned its own manufacturing unit near Uluberia, Howrah of West Bengal, where it has the facility for electroplating steel rods with copper, as well as two furnaces for preparation of copper electrode and other accessories. Previously, the company used to procure finished products from a group entity, which has been gradually discontinued, post setting up of the company's own unit.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 0.89 crore on an operating income of Rs. 33.05 crore compared to a net profit of Rs. 0.67 crore on an operating income of Rs. 26.61 crore in FY2017.

Key financial indicators

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	26.61	33.05
PAT (Rs. crore)	0.67	0.89
OPBDITA/OI (%)	6.05%	6.06%
RoCE (%)	11.67%	12.74%
Total Debt/TNW (times)	1.29	1.15
Total Debt/OPBDITA (times)	4.39	3.65
Interest coverage (times)	3.34	3.55

Status of non-cooperation with previous CRA: Not Applicable

Rating history for the last three years:

Instrument	Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years						
			Date & Rating Aug 2018	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
				September 2017	January 2017	October 2016	July 2015		
1 Packing Credit	Short	3.50	2.43 (June 2018)	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
2 Bill Discounting	Short	5.00	4.23 (June 2018)	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3 Bank Guarantee	Short	0.25	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4 Unallocated Limit	Short	3.25	-	[ICRA]A4	-	-	-	-	-

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	Short Term - Packing Credit Limit	-	NA	-	3.50	[ICRA]A4
NA	Short Term - FOBP/ FOUBP/ FABC/ FOUBNLC (bill discounting)	-	NA	-	5.00	[ICRA]A4
NA	Short Term- Bank Guarantee	-	NA	-	0.25	[ICRA]A4
NA	Short Term - Unallocated Limit	-	NA	-	3.25	[ICRA]A4

Source: Kopell Grounding Systems Private Limited

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