

KENT RO Systems Limited

February 27, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund based limits – Cash Credit	10.00	11.00	[ICRA]AA (Stable); upgraded from [ICRA]AA-(Stable)
Long term: Non Fund Based Limits – Bank Guarantee	0.50	0.50	[ICRA]AA (Stable); upgraded from [ICRA]AA-(Stable)
Short Term: Non-Fund Based Limits – ILC	5.00	30.00	[ICRA]A1+; reaffirmed
Total	15.50	41.50	

* -Instrument details are provided in Annexure 1

Rationale

The rating upgrade factors in the sustained market leadership position in the reverse osmosis based technology in the water purification business; strong brand presence with a significant market share of ~40%; proven track record of its products, pan India diversified distributor and after sales network. Also, ICRA takes note of the healthy financial performance characterized by robust growth in topline which grew at a CAGR of ~22.18% during the period between FY2010 and FY2018 driven by healthy volumes and realisations. ICRA also takes note of the favourable movement in company's cost structure in FY2018 with benefits drawn out of setting up of in-house roll conversion unit, availing of input tax credit, budgetary support under GST¹ taking the operating margins to 24.92%. KENT's financial profile remains strong with zero net debt, low gearing and leverage indicators, robust coverage indicators, healthy cash flows as well as comfortable liquidity position reflected by huge free cash balances and low working capital limit utilisation averaging at <10% during the same period. ICRA takes note of the favourable growth prospects in the industry given the low penetration level of ~3% in rural as well as urban region.

The rating strengths are partially offset by high dependence on a single product i.e. water purifiers. Although, KENT has been diversifying its product portfolio with the launch of new products such as air purifiers in FY2016 and other kitchen appliances in FY2018, ability of the company to ramp up operations and sustain the margins at current levels needs to be seen. Furthermore, the ratings also factor in the intense competition due to the entry of new players in the market, which could impact its ability for price revisions and thereby its ability to improve margins. Also, ICRA takes note of the huge capex to be undertaken over the next three-year period although the same will be funded entirely by way of internal accruals.

Going forward, the ability of the company to ramp up its operations in the newly inaugurated facility, sustain its leadership position and constantly innovate to bring in new technology remains key credit monitorable.

¹ Industries set up in Uttarakhand region which earlier qualified for excise duty exemption can avail budgetary support with the onset of GST

Outlook: Stable

ICRA believes that KENT will continue to leverage its established market position supported by its pan India distribution network and command significant market share in the RO water purifier segment. The outlook may be revised to 'Positive' if there is significant product diversification without any impact on its current margins. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if there is any major investment in unrelated areas or if a stretch in the working capital cycle weakening the company's liquidity.

Credit strengths

Experienced promoters and the established relationship with raw material suppliers – The promoters of the company are engaged in the water purification industry for the past two decades. Being the pioneer in reverse osmosis based water purification technology, has resulted in established relationship with its customers and suppliers.

Proven track record of KENT brand– Kent is a leading player in the residential RO water purifier segment and enjoys a significant market share of >40%. The company has 24 clearing and forwarding (C & F) agents spread across 24 states in India. Within its product segment, Kent is the leader in the premium sub-segment supported by its established after sales and servicing network

Favourable growth prospects – The demand prospects for the RO water purifiers segment remain favourable given the low penetration levels. KENT being a pioneer in this product segment, is in a position to benefit from the growing market for RO water purifiers

Strong financial profile – The capital structure of KENT has remained comfortable with zero net debt, low borrowings as on March 31, 2018 and high cash balances. The coverage indicators remained robust owing to healthy profitability, low level of borrowings and no-fixed repayment obligation of the term liability. Interest coverage stood at 90.44 times in FY2018.

Credit weaknesses

High dependence on a single product- KENT manufactures water purifiers, which accounted for ~76% of in the company's revenues, exposing it to product concentration risk. It manufactures different kind of water purifiers based on RO, UV and Gravity technology from its two facilities situated at Uttarakhand. Additionally, the company has also launched other products such as fruit and vegetable purifiers, air purifier, water softener, vacuum cleaner and juicer but their contribution to overall revenues remains low at <5% of FY2018 revenue.

Huge capex plans: KENT has surplus cash and plans to incur a huge capex over the next three -period. Although the entire capex will be funded out of internal accruals, ability to ramp up its utilisation remains to be seen.

Intense competition may exert pressure on the margins–The competition in the water purifier industry has been increasing in the past few years with other corporates launching their products aggressively. The increased competition is likely to exert pressure on the margins and the company needs to spend adequately on sales and distribution to maintain its position and drive volumes

Liquidity Position:

The liquidity position remains healthy with low working capital limit utilisation at ~9% average utilisation during the twelve-month period ending November 2018 and huge cash surplus on its books as on Sept 30, 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company:

KENT commenced its operations out of its Roorkee facility as a partnership concern by Mr. Mahesh Gupta and family in 1999 to manufacture water purifiers under the reverse osmosis (RO) technology. Later, in 2007, the concern was converted into a closely held public limited company. KENT manufactures water purifiers based on RO, Ultraviolet (UV) and gravity technology in its two facilities situated at Uttarakhand and the recently commenced facility at Noida. Apart from water purifiers, KENT entered into unrelated diversification to manufacture air purifiers in FY2017 and kitchen appliance segment in FY2018 which together contribute <5% of the revenues. It has a wide network of distributors and dealers and a wide service network of 1500+ service partners, spread throughout India. The company has been focusing primarily on the domestic market with exports contributing to <3% share of revenues.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	777.8	841.2
PAT (Rs. crore)	112.5	151.8
OPBDIT/ OI (%)	22.2%	24.9%
RoCE (%)	24.6%	29.0%
Total Debt/ TNW (times)	0.01	0.01
Total Debt/ OPBDIT (times)	0.05	0.02
Interest coverage (times)	86.2	90.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating Feb 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
1	Cash Credit	Long Term	11.00	11.00	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	Bank Guarantee	Long Term	0.50	0.50	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
3	Letter of credit	Short Term	30.00	30.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

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	Cash Credit	FY2018	10.60%	-	10.00	[ICRA]AA(Stable)
NA	Overdraft	Aug 2018	11.35%	-	1.00	[ICRA]AA(Stable)
NA	Bank Guarantee	FY2018	-	-	0.50	[ICRA]AA(Stable)
NA	Letter of Credit - 1	FY2018	-	-	5.00	[ICRA]A1+
NA	Letter of Credit - 2	Aug 2018	-	-	25.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

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