

May 26, 2020

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 - Cash Credit Limits	14.00	19.00	[ICRA]AA-(Stable) Reaffirmed
Non-fund Based Limits	986.00	981.00	[ICRA]A1+ Reaffirmed
Unallocated Limits	200.00	200.00	[ICRA]AA-(Stable)/[ICRA]A1+ Reaffirmed
Total	1200.00	1200.00	

*Instrument details are provided in Annexure 1

Rationale

The reaffirmation of ratings takes into consideration the market leadership position of Kirby Building Systems & Structures India Private Limited's (KBSSIPL) in the domestic pre-engineered building (PEB) segment with reputed client portfolio across India such as Tata Group, Reliance Industries, Hindustan Unilever, Colgate Palmolive, Instakart Services Pvt. Ltd, MRF Ltd. and Apollo Tyres Ltd., etc. This has aided in its continued strong operational and financial performance with revenues increasing at a CAGR of 22% during the last two years and healthy profitability indicators. As such, KBSSIPL has been able to generate strong cash flows and has been able to maintain its debt-free status, with a sizeable liquid cash surplus of ~Rs. 530 crore as on April 30, 2020. ICRA expects the liquidity position to remain strong with expected cash and liquid investments of over Rs. 200 crore by the end of CY2020, despite dividend outflow of Rs. 350.00 crore in Q2 CY2020.

Going forward, although the order book position is strong at Rs. 1,029 crore as on April 30, 2020, the revenues are expected to decline by 25% in CY2020 owing to production disruption from March 22, 2020 to early May 2020 and execution challenges in light of the Covid-19 pandemic. Further, due to the pandemic, the company may witness contraction in new order inflows or deferment of orders over the near term as the private players, amid the uncertainty on demand, are likely to shelve/scale down/defer their capex plans. However, the order book is diversified across various sectors including orders from e-commerce, pharma, logistics, and warehousing segments, where the impact of the pandemic is expected to be relatively lower. The ratings are also constrained by high total outside liabilities / tangible net worth (TOL/TNW), which is expected to increase to more than 2.50 times by December 31, 2020 on the back of sizeable dividend outflow and the consequent reduction in net worth levels. The outside liabilities are high on account of high trade payables, given that KBSSIPL procures raw material against LC of 120-150 days and significant advances from customers as it collects around 10-20% of order value as mobilisation advances. These apart, the ratings note the risks associated with adverse fluctuations in raw material prices as given that majority of the projects are fixed-price contracts. However, quarterly price fixation with suppliers mitigates the risk to an extent and supported the profitability margins.

Key rating drivers and their description

Credit strengths

Market leader in domestic PEB industry – KBSSIPL has the largest installed capacity of 2,00,000 MT for PEB in India, which is around 20% of the total installed capacity in the country. It has a diversified sales network in India with sales offices in 22 cities.

Diversified client portfolio – The company had completed large projects with cumulative installation of around 6,60,000 MT during the last five years. KBSSIPL has been associated with companies such as the Tata Group, Reliance Industries, Hindustan Unilever, MRF Limited, Amazon, Renault-Nissan, Asian Paints, ITC Limited, Dr. Reddy's Laboratories Ltd., Apollo Tyres Ltd., etc, and has consistently received repeat orders from its customers.

Comfortable coverage indicators with strong liquidity position – The company does not have any debt and the coverage indicators are robust with interest coverage ratio of 11.4 times in CY2019. Further, it reported liquid surplus of ~Rs. 530 crore as on April 30, 2020. Despite dividend outflow of Rs. 350.00 crore in Q2 CY2020, ICRA expects KBSSIPL's liquidity position to remain strong with liquid investments of over Rs. 200 crore by the end of CY2020 owing to its strong cash flow generation.

Part of Alghanim Industries – KBSSIPL is a part of Alghanim Industries (AI), based out of Kuwait, which has more than 30 businesses with operations in 40 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 (UAE), Vietnam and India. The company has its presence in India since the last 20 years and has a strong brand image in the domestic PEB industry.

Credit challenges

Revenues dependent on capital investments cycle – KBSSIPL's revenues are dependent on capital investments across its key user industries, which expose the company to any slowdown in the end-user segment. Further, due to the Covid-19 pandemic, it may witness contraction in new order inflows over the medium term as the private players, amid the uncertainty on demand, are likely to shelve/scale down/defer capex plans. However, its order book is diversified across various sectors including orders from e-commerce, pharma, logistics, and warehousing segment, where the impact of pandemic is expected to be relatively lower.

High TOL/ TNW – The TOL/TNW is expected to increase to more than 2.50 times by December 31, 2020 from 1.31 times as on December 31, 2019 owing to sizeable dividend outflow and consequent reduction in net worth levels. The outside liabilities are high on account of high trade payables and significant advances from customers. As on December 31, 2019, the trade payables stood at Rs. 396.79 crore and Rs. 168.26 crore as advances from customers.

Limited diversification of revenues – The company's revenue diversification is low with more than 85% of the operating income derived from the PEB division. However, over the medium term, the revenues from structural steel and storage solutions divisions are expected to improve resulting in diversification.

Exposed to fluctuations in raw material prices – The company is exposed to fluctuation in raw material prices, given that most of its orders are fixed price in nature. Despite this, the operating margins improved to 13.81% Q1 CY2020 and 14.30% in CY2019 from 10.69% CY2018 owing to increased contribution margin with reduced steel prices, coupled with benefits arising out of increased scale of operations. Further, quarterly price fixation with suppliers mitigates the risk in fixed-price contracts and supports the profitability to an extent.

Liquidity position: Strong

KBSSIPL's liquidity position is **strong** with cash and liquid investments of ~Rs. 530 crore, and undrawn working capital limits of Rs. 49.00 crore as on April 30, 2020. In relation to these sources of cash, it has a dividend commitment of Rs. 350 crore and low capex plans in CY2020. Overall, despite its sizeable dividend commitment, ICRA expects KBSSIPL's liquidity position to remain strong with cash balances expected to increase to more than Rs. 200 crore by the end of CY2020 owing to strong cash flow generation. In addition, the company has healthy financial flexibility and is able to get working capital limits from financial institutions at a short notice, which supports its liquidity position.

Rating sensitivities

Positive triggers – ICRA could upgrade KBSSIPL's rating if there is substantial growth and diversification of revenues while maintaining the profitability indicators and liquidity position.

Negative triggers – The ratings may witness downward pressure in case there is any material decline in revenues or margins and higher-than-estimated capex or dividends leading to a weakened liquidity position. Further, the ratings may be downgraded if prolonged impact of the Covid-19 pandemic adversely impacts KBSSIPL's financial performance and liquidity position.

Analytical approach

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

About the company

Incorporated in 2005, KBSSIPL, formerly known as Kirby Building Systems India (Uttaranchal) Private Limited (KBSIUPL), is into manufacturing and erection of PEBs. The company is a wholly-owned subsidiary of Alghanim Industries (AI), based out of Kuwait, which has more than 30 businesses with operations in 40 countries. It has two manufacturing facilities located at Haridwar, Uttarakhand and Pashamylaram, (near Hyderabad) in Telangana with an installed PEB manufacturing capacity of 1,00,000 MT per annum each. In CY2018, it started manufacturing structural steel with an installed capacity of 12,000 MT per annum in Hyderabad.

Key financial indicators

	CY2018	CY2019	3M CY2020*
Operating Income (Rs. crore)	1275.28	1617.37	342.24
PAT (Rs. crore)	75.23	148.30	34.56
OPBDIT/ OI (%)	10.69%	14.30%	13.81%
RoCE (%)	41.61%	56.75%	39.80%
Total Debt/ TNW (times)	0.00	0.00	0.00
Total Debt/ OPBDIT (times)	0	0	0
Interest coverage (times)	10.2	11.4	15.3

*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 (FY2021)							Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					26 May 2020	07 August 2019	30 May 2019	08 June 2018	28 Sep 2017	25 Aug 2017
1	Fund-based – Cash Credit Limits	Long term	19.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Positive)
2	Non-fund Based-Bank Guarantee	Short term	981.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated Limits	Long Term/Short term	200.00	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Positive)/[ICRA]A1+	[ICRA]A+(Positive)/[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 o	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit				19.00	[ICRA]AA- (Stable)
NA	Non-fund Based Limits				981.00	[ICRA]A1+
NA	Unallocated Limits				200.00	[ICRA]AA- (Stable)/[ICRA]A1+

Source: Kirby Building Systems& Structures India Private Limited

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