KJV Alloy Conductors Private Limited (KJV)

July 02, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long term - Fund based limit – Term Loan	8.33 (increased from Rs. 4.05 crore)	IVR BBB / Positive (IVR Triple B with Positive Outlook)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Rating Reaffirmed; Outlook Revised to Positive / Assigned	Simple
Long term – Fund Based – Cash Credit	14.94	IVR BBB / Positive (IVR Triple B with Positive Outlook)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Rating Reaffirmed; Outlook Revised to Positive	Simple
Proposed Long Term limit – Term Loan	0.17	IVR BBB / Positive (IVR Triple B with Positive Outlook)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Rating Reaffirmed; Outlook Revised to Positive	Simple
Short term – Non-Fund based limit – Bank Guarantee/ Letter of Credit	31.50 (increased from Rs. 21.50 Crore)	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	Reaffirmed / Assigned	Simple
Short term – Non-Fund based limit – Derivative	0.18	IVR A3 (IVR A Three)	-	Assigned	Simple
Total	**55.12 (Rupees Fifty-Five Crore Twelve Lakhs only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed/assigned the rating to the bank facilities of KJV Alloy Conductors Private Limited with revision in its outlook, considering the improvement in the scale of operations and EBITDA margin.

The rating also factors in the comfortable capital structure and healthy debt coverage indicators, experienced promoters in the industry backed by qualified management team, established presence in the market with reputed clientele, the company's wide range of product portfolio, and thrust of the government in the DISCOM sector with the revamped scheme announced. The ratings are however constrained by working capital intensive nature of operations, geographical concentration and exposure to foreign exchange fluctuation risk followed by presence in highly fragmented & competitive nature of the sector with significant price war.

The positive outlook assigned to the company reflects expected improvement and maintenance in scale of operations and profitability respectively, followed by the maintenance of the comfortable working capital cycle.

Key Rating Sensitivities:

Upward Factors

- A sustained improvement in the revenue with increase in the profitability and debt protection metrics

Downward Factors

- Any decline in revenue and/or profitability leading to deterioration in debt protection metrics.
- Elongation working capital cycle leading to deterioration in liquidity profile and/or capital structure.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Increase in the scale of operations

The company utilizes around 45-60% of the total installed capacity, out of which the company caters to the domestic as well as export market. The company has reported a substantial increase in its revenue, of around 30% growing from Rs.291.90 crore registered in FY23 (Audited) (refers to the period from April 01, 2022 to March 31, 2023) to Rs.380.57 crore registered in FY24 (Provisional) (refers to the period from April 01, 2023 to March 31, 2024). This growth was due to the rising demand for its products because of the RDSS scheme. During the year FY24 the company reported an increase in the sales quantity by around 36% in FY24 as compared to FY22 the effect of which was however partially offset by the reduction in the sales realization by around 4% during the same period.

Moderate profitability albeit improvement on y-o-y basis

EBITDA has increased from Rs.9.68 crore in FY23 (Audited) to Rs.20.89 crore in FY24 (Provisional), this was backed by the increase in the scale of operations as well as the reduction in the raw material prices, by making bulk orders and better inventory management systems leading to reduced operating costs for the year. This overall led to EBITDA margins of 5.49% reported in FY24 as compared to 3.32% reported in FY23.

The PAT margin also improved on y-o-y basis due to the increase in the scale of operations and the operating profitability alongwith continuous low utilization of the fund based sanctioned limits leading to lower financial costs wise. The maintenance of these operating and overall profitability will remain a key rating monitorable.

Healthy debt protection metrics and comfortable capital structure

KJV's capital structure has remained comfortable marked by overall gearing of 0.35x as at FY24 end (FY23 : 0.41x) as the company has not availed any major term loans and low utilization of the sanctioned fund based working capital limits on the balance sheet date, as well as the increase in the tangible networth due to the accretion of the profits to reserves. Also unsecured loans to the tune of Rs.6.30 crore has been considered as quasi capital. Accordingly, the company reported TOL/TNW of 0.68x as on March 31, 2024 as compared to 0.82x as on March 31, 2023. Furthermore, due to low debt levels and the increase in the profit margins, the company has been able to report better debt protection metrics as indicated by the interest coverage ratio of 7.72x (4.79x).

Experienced promoters & qualified management team

The current promoter Mr. Sahaj Patel is having over 30 years of experience in the Aluminum industry and their past track successful orders awarding and allocation provides sufficient cushion to the company. Since incorporation company has adopted professional management with ISO certification a team of highly qualified and experienced executives and a team of renowned consultants.

Established presence in the market through wide range of product portfolio in the sector, along with reputed clientele

KJV manufactures conductors (AAC – All Aluminium Conductor, ACSR – Aluminium Conductor Steel Reinforced AAAC – All Aluminium Alloy Conductor, ABC – Aerial Bunched Cable) for Distribution & Transmission power lines. The company supplies products to major Electricity Boards and Turnkey Contractors of India as well as overseas. The products portfolio covers entire Range of voltage & transmission lines suitable up to 765kV. In total they have manufacturing units at, Nagpur (Maharashtra) & Boregaon (65kms from Nagpur, in MH) with increase in the annual production capacity to 36000MT PA in FY24 from previous installed capacity of 26,000 MTPA. Also, the presence of the orders from major Electricity boards lowers the counter party risk to a great extent.

Thrust of the government in the DISCOM sector with the revamped scheme announced

The government of India has approved the Revamped Distribution Sector Scheme (RDSS) to help DISCOMs improve their operational efficiencies and financial sustainability by providing result-linked financial assistance to DISCOMs to strengthen supply infrastructure based on meeting pre-qualifying criteria and achieving basic minimum benchmarks. The scheme has an outlay of Rs.3,03,758 Crore over 5 years i.e. FY 2021-22 to FY 2025-26. The outlay includes an estimated Government Budgetary Support (GBS) of Rs 97,631 Crore. With this scheme coming in force and the thrust of the government on the infrastructure sector the companies like KJV are envisaged to profit.

Key Rating Weaknesses

Working capital intensive nature of operation

The operations of the company are moderately working capital intensive, marked by receivable days of around 35-45 days as at year end due to major sales getting registered in the month of March. Furthermore, the company needs to keep ample stock on hand, considering the downtime in production activity inherent in the industry. However, due to changes in the inventory management system, the company reported a reduction in average inventory days during FY24, resulting in an operating cycle of 37 days as on March 31, 2024 as compared to 44 days reported as on March 31, 2023.

Highly fragmented & competitive nature of the sector with significant price war

The domestic transformers and conductors' market is highly crowded with the presence of many players with varied statures & capabilities. The trust of the government in the sector resulted in an increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern as the same can dent the margins.

Geographical concentration and exposure to foreign exchange fluctuation risk

Domestic sales remained concentrated in three states, namely Andhra Pradesh, Telangana, and Maharashtra. Exports account for less than 1% of the total sales. The sales registered from other countries mitigate geographical concentration risk to some extent; however, they expose the company to foreign exchange fluctuation risk. With risk mitigation strategies such as receipt of full advance payments and LC-backed orders in place, the company did not report losses on this account in FY24. However, the impact of forex fluctuations and the mitigation of the same will remain a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition and post default curing period
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

KJV's liquidity remains adequate with minor term repayments via-a-vis the sufficient gross cash accruals for the projected period. The company has availed fund based sanctioned limits whose average utilization remained low for the past 12 months ended March 31, 2024. However, due to the nature of the business the company made almost full utilisation of its sanctioned non fund based working capital limits. Simultaneously the current ratio and the quick ratio of the company remained at satisfactory level at 2.41x and 1.95x respectively for the year ended on March 31, 2024 (FY23: 1.87x and 0.87x respectively). Furthermore, the company has comfortable WC cycle resulting in better liquidity position and low reliance on fund based working capital limits from banks.

About the Company

Incorporated in 1995 with its registered office in Nagpur, Maharashtra, KJV started its operation with manufacturing AAC, ACSR, Bare Aluminium Wire & Strips, Bare Aluminium Alloy Wire in the year 1989, with its manufacturing facilities located at Nagpur and Borgaon having a total installed capacity of 36,000 MTPA. KJV is engaged in distribution & transmission sector involved in executing contracts for national & international power sector utilities & contractors.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	**31-03-2023**	**31-03-2024**
	Audited	**Provisional**
Total Operating Income	291.90	380.57
EBITDA	9.68	20.89
PAT	5.66	12.58
Total Debt	15.62	17.82
Tangible Net Worth	38.20	51.12
EBITDA Margin (%)	3.32	5.49
PAT Margin (%)	1.92	3.30
Overall Gearing Ratio (x)	0.41	0.35
Interest Coverage (x)	4.79	7.72

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	**Name of Facilities**	**Current Ratings (Year 2024-25)**			**Rating History for the past 3 years**		
		Type (Long Term/ Short Term)	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2023-24**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in in 2021-22**
					(May 09, 2023)		
1.	Term Loan	Long Term	8.33	IVR BBB / Positive	IVR BBB; Stable	-	-
2.	Cash Credit	Long Term	14.94	IVR BBB / Positive	IVR BBB; Stable	-	-
3.	Proposed Term Loan	Long Term	0.17	IVR BBB / Positive	IVR BBB; Stable	-	-
4.	Letter of Credit / Bank Guarantee	Short Term	31.50	IVR A3	IVR A3	-	-
5.	CEL	Short Term	0.18	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	May-28	8.33	IVR BBB/ Positive
Cash Credit	-	-	-	-	14.94	IVR BBB/ Positive
Proposed Term Loan	-	-	-	Yet to decide	0.17	IVR BBB/ Positive
Letter of Credit / Bank Guarantee	-	-	-	-	31.50	IVR A3

CEL	-	-	-	-	0.18	IVR A3

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-KJVAlloy-july24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.