



Press Release

Giga Pipes Systems India LLP

September 10, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	10.00	IVR A- (CE)/Stable outlook [IVR Single A Minus (Credit Enhancement) with Stable outlook]*	Revised & Reaffirmed from IVR A- (SO)/Stable outlook [IVR Single A Minus (SO) with Stable outlook]*
Short Term Bank Facilities	30.00	IVR A2+(CE) [IVR A Two Plus (Credit Enhancement)]*	Revised & Reaffirmed from IVR A2+(SO) [IVR A Two Plus (SO)]*
Total	40.00		

*Based on unconditional and irrevocable corporate guarantee from KKSPUN India Limited

Details of Facilities are in Annexure 1

Detailed Rationale

The rating revised & reaffirmed to the bank facilities of Giga Pipes Systems India LLP continues to derive comfort from its experienced promoters and unconditional & irrevocable corporate guarantee from KKSPUN India Limited. This corporate guarantee continues to result in credit enhancement in the rating of the said bank facilities to **IVR A- (CE)/Stable Outlook [IVR Single A Minus (Credit Enhancement) with Stable Outlook]** & **IVR A2+ (CE) [IVR A Two Plus (Credit Enhancement)]** against the unsupported rating of **IVR BB+/Stable (IVR Double B Plus with Stable Outlook)**.

The revision and reaffirmation in the rating assigned to the bank facilities of Giga Pipes Systems India LLP takes into account improvement in scale of operation in FY20 Provisionals. Further, the ratings continues to derive comfort from extensive experience of its promoters, healthy order book and comfortable capital structure. These rating strengths continues to remain partially offset by nascent stage of operations of the firm albeit witnessed CAGR of



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18.23% in the past 3 years, customer concentration in revenue profile, volatile input prices in correlation with the petroleum cycle and fragmented industry leading to high competition.

Key Rating Sensitivities:

Upward Factor:

- Sharp increase in total income with significant improvement in margins and cash accruals on a sustained basis
- Improvement in capital structure , debt protection metrics and liquidity

Downward factor:

- Moderation in operating income or profitability and/or cash accrual, any further stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing.
- Continuation of sharp moderation in scale of operations and credit risk profile in Q2 FY21 as well in both Giga Pipes LLP/KK SPUN India Limited

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- ***Experienced Promoters***

Giga Pipe is promoted by KK Spun India Limited, a company engaged in manufacture of precast concrete pipes and fittings since 1977 and RITEC Kunststoff Handels, Germany, part of MDS Group which has been into diverse business activities relating to corrugated pipe manufacturing, joints systems and sealing systems.

Further, the firm is led by a team of well qualified and experienced professionals. Giga Pipe is likely to benefit from the extensive experience of its promoters and management over the medium term.

- ***Corporate guarantee from the promoters***

The bank facilities of Giga Pipe are backed by corporate guarantee from its promoter KKSPUN India Limited (*rated IVR A-/Stable/IVR A2+; assigned on November 29, 2019*).



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- **Healthy Order Book**

Giga Pipe had outstanding orders to the tune of Rs.165.85 crore as on July 31st, 2020 which provides healthy revenue visibility over the near term.

- **Comfortable Capital Structure**

The capital structure of the company remained comfortable over the past fiscals. The overall gearing remained comfortable at 0.91x as on March 31, 2020 moderated from 0.43x as on March 31, 2019 due to increase in total debt in FY20 majorly in short term borrowings. The net worth stood healthy and increased at of INR 14.47 crore as on March 31, 2020 as against INR 12.18 crore in the previous year due to ploughing back of profits into the business. Further, total indebtedness of the company as reflected by TOL/ANW remained stable and comfortable at 2.33x as on March 31, 2020 (TOL/TNW at 1.44x in FY19). The debt protection metrics remained strong, with interest coverage ratio at 2.67x in FY20.

Key Weaknesses

- **Nascent stage of operations albeit witnessed CAGR of 18.23% in the last 3 years**

Giga Pipe commenced operations in Feb 2017. The firm achieved revenues of Rs.10.14crore in FY18, its first full year of operations. In FY19, Giga Pipe reported revenues of Rs.25crore. Total operating income (TOI) of the company registered a CAGR of 18.23% in the past 3 years and indicated y-o-y growth of about ~29.71% in FY20 driven by increased orders received from new clients and repeated orders from existing clients.

- **Customer concentration in revenue profile**

The firm is exposed to client concentration risk as it derived its revenue from 5 customers only in FY18. Client concentration is likely to continue over the near term.

- **Volatile input prices in correlation with the petroleum cycle**

Ethylene is the raw material required for production of HDPE (High-density polyethylene); the main input used by the firm. HDPE prices are subject to high volatility on account of price changes in Crude oil, Ethylene etc. Thus, the operating profitability of Giga Pipes will remain vulnerable to volatility in input prices.



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- ***Fragmented industry leading to high competition***

The pipe industry in India is largely fragmented; marked by the presence of a few big players and a large number of unorganized players. The firm is thus exposed to intense competition from the unorganized players in the domestic market.

Analytical Approach:

Credit Enhancement (CE) rating: Assessment of the credit profile of KKSPUN India Limited, provider of corporate guarantee to Giga Pipes Systems India LLP

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Rating Methodology for Structure Debt Transaction (Non-Securitisation Transaction)

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the firm is expected to remain adequate as the firm is expected to generate steady cash accrual ~Rs.3.66 crore – Rs.5.27 crore during FY21-23 as against its scheduled repayment obligation in the range of ~Rs.1.12 crore – Rs.3.10 crore during the aforesaid period. The firm has adequate cash and bank balances of INR 1.87 Cr in FY20. Further, its bank limits remained utilized to the extent of ~92% during the past 12 months ended July 2020 indicating a moderate liquidity buffer. The bank limits up to INR 40.00 crore is backed by corporate guarantee of KKSPUN India Limited.

About the Company

Incorporated in 2015, Giga Pipe Systems India LLP (Giga Pipe) is engaged in the manufacture of double wall corrugated pipe ranging from diameter 90 mm to 500 mm. The firm's manufacturing facilities are located at Bhiwadi (Rajasthan) and Maihar (Madhya Pradesh) with installed capacity of 17.856 MT per annum.



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The firm is promoted by KK Spun India Limited and RITEC Kunststoff Handels, Germany.

Financials: Standalone (Giga Pipes Systems India LLP)

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	25.00	71.06
EBITDA	3.03	7.76
PAT	1.61	2.30
Tangible Net worth	12.18	14.47
EBITDA Margin (%)	12.12	10.92
PAT Margin (%)	3.34	3.23
Overall Gearing Ratio (x)	0.43	0.91

*As per Infomerics Standards

Status of non-cooperation with previous CRA:

Any other information: Nil

About the Guarantor:

KKSPUN India Limited is a provider of precast concrete solutions for the Infrastructure Industry. KKSP was initially founded by Mr. Pramod Gupta in 1977, with a single manufacturing unit in Ballabgarh. Then in 2006, KKSPUN India Private Limited was incorporated. Subsequently in May, 2016, the Company was converted into a Public Limited Company and the name was changed to KKSPUN India Limited. The Company's precast concrete business extends to include products such as RCC pipes, jacking pipes, shaft and tunnel segments, irrigation pipes etc.

Financials: Standalone (KKSPUN India Limited)

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	431.63	599.46
EBITDA	74.12	94.49
PAT	19.86	25.15
Tangible Net worth	153.20	178.34



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For the year ended*/As on	31-03-2019	31-03-2020
EBITDA Margin (%)	17.17	15.76
PAT Margin (%)	4.57	4.17
Overall Gearing Ratio (x)	1.10	1.24

*As per Infomerics Standards

Status of non-cooperation with previous CRA: NIL

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	10.00	IVR A-(CE)/Stable outlook [IVR Single A Minus (Credit Enhancement) with Stable outlook]*	IVR A-(SO)/Stable (June 27, 2019)	-	-
2.	LC	Short Term	10.00	IVR A2+(CE) [IVR A Two Plus (Credit Enhancement)]*	IVR A2+(SO) (June 27, 2019)	-	-
3.	BG	Short Term	20.00	IVR A2+(CE) [IVR A Two Plus (Credit Enhancement)]*	IVR A2+(SO) (June 27, 2019)	-	-

*Based on unconditional and irrevocable corporate guarantee from KKSPUN India Limited

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.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	10.00	IVR A- (CE)/Stable outlook [IVR Single A Minus (Credit Enhancement) with Stable outlook]*
Short Term Bank Facilities – LC	-	-	-	10.00	IVR A2+(CE) [IVR A Two Plus (Credit Enhancement)]*
Short Term Bank Facilities – BG	-	-	-	20.00	IVR A2+(CE) [IVR A Two Plus (Credit Enhancement)]*

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