



## Press Release

Kritika Wires Limited

October 21, 2020

### Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	41.50	IVR BBB- (Credit Watch with Developing Implications) (IVR Triple B minus under Credit watch with developing implications)	Assigned
Short Term Bank Facilities	53.60	IVR A3 (IVR A Three) (Credit Watch with Developing Implications) (IVR Triple B minus under Credit watch with developing implications)	Assigned
<b>Total</b>	<b>95.10</b>		

Details of Facilities are in Annexure 1

### Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Kritika Wires Limited (KWL) derives comfort from its experienced promoters, reputed clientele, satisfactory gearing with moderate debt protection metrics and favourable industry outlook. However, these rating strengths are partially offset by intense competition leading to its range bound margins, deterioration in financial performance in FY20 (Provisional) and elongated receivable period.

The ratings remained under credit watch with developing implications due to uncertainty in the performance due to outbreak of COVID19. Infomerics will continue to monitor the developments in this regard and will take a view on the rating once the exact implications of the above on the credit risk profile of the company is clear.

### Key Rating Sensitivities:

#### Upward factors

- Continuous inflow of orders with improvement in scale of operations, profitability and cash accruals.
- Improvement in the capital structure and debt protection metrics
- Improvement in the average collection period with improvement in liquidity

#### Downward factors

- Moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.



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- Deterioration in the capital structure
- Deterioration in working capital cycle through further elongation in collection period.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced promoters**

KWL is promoted by Kolkata based Mr. Naresh Kumar Agarwal and Mr. Hanuman Prasad Agarwal who have an experience of over a decade in the wires and cable industry. They are actively involved in managing the day to day operations of the company along with the support of other Directors who also have adequate experience in the sector. They are supported by a team of qualified and experienced professionals.

##### **Reputed clientele**

The company's customer base consists of reputed Government companies and large private companies engaged in manufacturing of cables and conductors and electrification business as evident from the order book of the company. The repeat orders received from its clientele validates its capabilities. Though KWL has low bargaining power with its customers, its clientele base has sound credit risk profile, which does reduce the counter party payment risk to a certain extent. The top ten customers comprise of ~60% of the sales in FY20 indicating a moderately diversified customer base.

##### **Satisfactory financial profile marked by satisfactory gearing and debt protection metrics albeit marginal deterioration in debt protection parameters in FY20 (Prov.)**

The capital structure remained comfortable with minimal long-term debt marked by long term debt equity ratio of 0.05x and overall gearing ratio of 0.68x as on March 31, 2019. The capital structure further improved with long term debt equity ratio of 0.02x and overall gearing of 0.67x as on March 31, 2020 (Prov.). The debt protection parameters were comfortable in FY19 with interest coverage ratio at 4.38x (4.31x in FY18) and total debt to GCA at 4.31x (5.96x in FY18). However, the debt protection metrics moderated in FY20 (Prov.) with interest coverage ratio at 2.71x and total debt to GCA of 10.54x due to decline in absolute EBITDA and GCA in FY20 (Prov.).

##### **Favorable outlook of cable/conductors (the end consumer) and wires in India**



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The outlook for cable/conductors is favourable on account of continuous increase in government's focus to increase power generation capacity in the country along with reduction in Transmission and Distribution (T&D) losses and thrust on rural electrification.

### **Key Rating Weaknesses**

#### **Exposure to intense competition; leading to range-bound margins**

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, KWL also faces competition from the organized sector players. The EBITDA margins have remained range-bound between 5.5-7% over the last few years given the intense competition and fragmentation in the industry.

#### **Deterioration in financial performance in FY20 (Prov.) in spite of improvement in revenues in FY19**

Total operating income witnessed a y-o-y growth of ~7% in FY19 over FY18 on the back of increase in volume sales as well as sales realisation of ACSR core wire, barbed wires, GI wire and HT wire. As a result, the EBITDA margin improved marginally from 6.43% in FY18 to 7.08% in FY19. Consequently, PBT and PAT margin also improved from 2.96% and 1.95% respectively in FY18 to 3.60% and 2.42% respectively in FY19. However, total operating income declined substantially from Rs.276.56 crore in FY19 to Rs.174.34 crore in FY20 (Prov.) driven by the fact that most of the companies engaged in manufacturing of cables and conductors and setting up of transmission lines (end consumer of KWL) have started doing underground cabling leading to decline in demand of its products and sales realisation of the key products of KWL. Further, the manufacturing facility of KWL was under repairs and maintenance due to breakdown during Nov-Dec, 2019 leading to decline in production. Again, in March ,2020 the plant witnessed shut down due to lock down amidst COVID-19 pandemic. On account of shut down of plants the overall capacity utilisation was impacted in FY20 and deteriorated from ~60% in FY19 to ~41% in FY20. Consequently, the EBITDA margin also declined from 7.08% in FY19 to 6.28% in FY20 (Prov.). PBT and PAT margin also witnessed a declining trend from 3.60% and 2.42% respectively in FY19 to 1.17% and 0.87% respectively in FY20 (Prov.). During Q1FY21, the KWL achieved sales of Rs.46.45 crore. KWL's unexecuted order book position as on September 10, 2020 stood at around Rs.82.17 crore



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which are expected to be executed over the next 2.5-3 months indicating a satisfactory near-term revenue visibility.

### **Elongated receivable period**

The receivable cycle of KWL remained high, largely account of elongated payment cycle whereby money is normally realized from the debtors in 90-100 days. However, the average collection period deteriorated in FY20 due to weak market conditions and lock down in March, 2020. But since all the receivables of the company are from dominant reputed clients, the debtor's profile of the company is satisfactory. The operating cycle continued to remain high at 90 days in FY19 (73 days in FY18). The average working capital limit utilization remained moderate at 69% during the past twelve months ended August 31, 2020.

### **Analytical Approach: Standalone**

#### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

#### **Liquidity - Adequate**

The liquidity of the company is expected to remain adequate in the near to medium term marked by its sufficient accruals vis-à-vis insignificant debt repayment obligations. The overall gearing stood at 0.67x as on March 31, 2020 (Prov.) indicating a sufficient gearing headroom. The average working capital limit utilisation also remained satisfactory at ~69% during the past twelve months ended August 31, 2020 indicating an adequate liquidity buffer. The free cash and bank balance stood comfortable at Rs.11.69 crore as on August 31, 2020.

#### **About the Company**

Incorporated in 2004, Kritika Wires Limited (KWL; formerly known as Kritika Wires Private Limited) is a part of West Bengal based 'Jai Hanuman Group' and is engaged in manufacturing of all types of steel wire and galvanized wire. KWL got listed in the SME platform of the National Stock Exchange on October, 2018. The manufacturing facility of the company is situated in Sankrail Industrial Park, Howrah, West Bengal with a total installed capacity of 66,200 MTPA. KWL primarily caters to Government entities including State Electricity Boards, Power Grid Corporation of India Limited as well as large private players. The company has ISO 9001:2015, ISO 14001:2015 and OHSA 18001:2007 certifications.

#### **Financials (Standalone):**

**(Rs. crore)**



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For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	276.56	174.34
Total Income	278.55	176.03
EBITDA	19.58	10.94
PAT	6.75	1.54
Total Debt	42.31	42.70
Tangible Net worth	62.47	64.01
EBITDA Margin (%)	7.08	6.28
PAT Margin (%)	2.42	0.87
Overall Gearing Ratio (x)	0.68	0.67

\*As per Infomerics' Standard

### Status of non-cooperation with previous CRA:

Acuite Ratings has moved the rating of KWL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated June 12, 2020.

**Any other information:** Nil

### Rating History for last three years with Infomerics:

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	41.50	IVR BBB-(Credit Watch with Developing Implications)	-	-	-
2.	Bank Guarantee	Short Term	10.00	IVR A3 (Credit Watch with Developing Implications)	-	-	-
3.	Letter of Credit	Short Term	23.50	IVR A3 (Credit Watch with Developing Implications)	-	-	-
4.	Forward Contract Facility	Short Term	0.10	IVR A3 (Credit Watch with Developing Implications)	-	-	-



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5.	Bill Discounting	Short Term	20.00	IVR A3 (Credit Watch with Developing Implications)	-	-	-

**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](http://www.infomerics.com).

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities



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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	-	-	-	41.50	IVR BBB- (Credit Watch with Developing Implications)
Short Term Bank Facilities – Bank Guarantee	-	-	-	10.00	IVR A3 (Credit Watch with Developing Implications)
Short Term Bank Facilities – Letter of Credit	-	-	-	23.50	IVR A3 (Credit Watch with Developing Implications)
Short Term Bank Facilities – Forward Contract Facility	-	-	-	0.10	IVR A3 (Credit Watch with Developing Implications)
Short Term Bank Facilities – Bill Discounting	-	-	-	20.00	IVR A3 (Credit Watch with Developing Implications)