Press Release

Knest Manufacturers LLP

November 10, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	30.32 (Enhanced from Rs.10.36 crore)	IVR BBB / Stable [IVR Triple B with Stable Outlook]	Reaffirmed	Simple
Short Term Bank Facilities	58.41 (Enhanced from Rs.43.41 crore)	IVR A3+ [IVR A Three Plus]	Reaffirmed	Simple
Long Term / Short Term Bank Facilities (Proposed)	1.50	IVR BBB / Stable / IVR A3+ [IVR Triple B with Stable Outlook / IVR A Three Plus]	Reaffirmed	Simple
Total	**90.23 (Rupees Ninety Crore and Twenty Three Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Knest Manufacturers LLP (KML) factors overall improvement in operational as well as financial performance during FY23 (Audited) and 6MFY24 (Provisional Key Financial Numbers). Further the ratings continue to derive strength from experienced and qualified partners, growing scale of operation, healthy profitability margins. comfortable capital structure and debt coverage indicators, healthy order book position. The ratings however constrained by modest scale of operation, working capital intensive nature of operations, foreign exchange fluctuation risk, partnership nature of its constitution.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of operation along with improvement in profitability margins thereby leading to overall improvement in cash accruals.
- Improvement in the capital structure marked by TOL/TNW remain below 2.5 times along with improvement in debt service parameters.
- Prudent management of cash conversion cycle and working capital requirements.

Downward Factors

- Larger-than-expected debt-funded capex, leading to deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics.
- Stretch in the working capital cycle negatively impacting liquidity position.
- Withdrawal of capital on sustained basis leading to deterioration in networth base
- Stretch in the working capital cycle.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced and qualified partners**

  KML is promoted by Mr. Nitin Mittal, Mr. Prashant Agarwal, Mr. Ashish Agarwal, and Mr. Rajesh Goyal. The partners have an average experience of more than a decade in diverse industry viz. real estate development, trading of aluminium and printing. Mr. Nitin Mittal and Mr. Rajesh Goyal were associates with Kohinoor group for more than decade.

- **Growing scale of operation**

  The total operating income of KML has grew at CAGR of ~84% through FY20-FY23 to Rs. 413.61 crore driven by timely execution of orders, along with better realisation and higher demand from real estate sector. KML has achieved revenue of Rs.270.52 crore in 6MFY24.

- **Healthy profitability margins**

  The operating profit margin of KML has marginally improved by 40 bps and stood at 10.69% in FY23 (FY22: 10.28%) mainly due to increase in revenue. Further net PAT margin has also declined by 28bps and stood at 5.93% in FY23 (FY22: 6.21) on account of increase in interest and depreciation amount due to higher utilization of its working capital limits as on balance sheet date coupled with addition of new machineries in FY23.

- **Comfortable capital structure and debt coverage indicators**

  The capital structure marked by overall gearing ratio has marginally declined yet stood comfortable at 0.57x in FY23 (FY22: 0.41x) due to higher utilisation of working capital limits at the end of the year. However, TOL/ATNW remained high and at 3.70x in FY23 (FY22: 4.19x) mainly due to high amount of creditors.

  The debt coverage indicators marked by interest coverage ratio and total debt to gross cash accruals remained healthy at 26.09x and 1.02x respectively in FY23 (FY22: 25.98x and 0.65x respectively) due to improved profitability.

- **Healthy order book position**

  As on September 30, 2023 KML has healthy orders in hand with unexecuted orders book position of Rs.560 crore, which is expected to be executed during FY24, thereby providing short term revenue visibility. Also due to immense cost & operational benefits of aluminium formwork the entity is expecting strong order flows going ahead.

Key Rating Weaknesses

- **Working capital intensive nature of operations**

  The operations of the entity remained working capital intensive in nature reflected by higher inventory days as company needs to maintained inventory of various designs, sizes and shapes and remained in the range of 60-90 days during FY20-FY23. Receivable days remained lower and around 30 days at the end of FY23 as KML receives payment on milestone basis and customers generally pays its dues within 25-30 days from the date of raising the bills. KML does advance payment to suppliers as they receive discount on such payment. The operating cycle has increased and remained at 73 days in FY23 (FY22: 53 days) mainly on account of high inventory of finished goods as on March 31, 2023.

- **Foreign exchange fluctuation risk**

  The firm is exposed to foreign exchange fluctuation risk as it imports 50% of total purchases from China & Dubai. The firm does do not adopt hedging mechanism as it doesn't have banking limits for the same thus, the foreign exchange fluctuation risk continues to persist due to timing differences and volatility in the dollar prices.

- **Partnership nature of its constitution**

  Being a partnership firm, KML has limited ability to raise capital as it has restricted access to external borrowings where personal networth and credit worthiness of partners affect decisions of prospective lenders. Further, it is susceptible to risks of withdrawal of partners' capital at time of personal peril and lack of succession decisions may raise the risk of dissolution of the entity.

Analytical Approach: Standalone

Applicable Criteria:

Criteria for assigning rating outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The repayment obligation for FY24 amounts to Rs.0.50 crore which is expected to be met through sufficient targeted net cash accruals of Rs.51.80 crore in FY24. The average bank limit utilisation for the working capital facilities remained around 56% during the last twelve months ended as on September 30, 2023. The projected DSCR of 7.42x indicate comfortable liquidity position of the entity in meeting its debt obligations. Further, the current ratio and quick ratio stood moderate at 1.32x and 0.61x respectively as on March 31, 2023. Thus, the overall liquidity position of the company remained **Adequate**.

About the Company

Established in the year 2015, Knest Manufactures LLP (KML) is engaged in the business of manufacturing of aluminium formwork (replacement for timber formwork), which mainly find the application in the real estate industry. KML is one of the leading providers in modular aluminium formwork in India, and its manufacturing facility located in Talegaon, Pune with an installed capacity to manufacture 5,75,000 square meters of formwork per annum, which is utilized around 70% during FY23. The major raw material required by the firm is aluminium which it procures from domestic as well as international market. Import from China and Dubai constituted to around 50% of the total purchases.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	210.56	413.61
EBITDA	21.65	44.20
PAT	13.24	24.61
Total Debt	9.94	28.62
Tangible Net worth	24.04	50.00
EBITDA Margin (%)	10.28	10.69
PAT Margin (%)	6.21	5.93
Overall Gearing Ratio (times)	0.41	0.57

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Nil.

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	Name of Instrument / Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
Press Release					17-Aug-2023	12-Jul-2022	–
1.	Fund Based – Rupee Term Loans	Long Term	2.79	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	–
2.	Fund Based – Working Capital Term Loans	Long Term	0.38	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	–

		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	Name of Instrument / Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
Press Release					17-Aug-2023	12-Jul-2022	–
3.	Fund Based – Guaranteed Emergency Credit Line	Long Term	1.15	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	–
4.	Fund Based – Cash Credit	Long Term	19.00	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	–
5.	Fund Based – Working Capital Demand Loan	Long Term	2.00	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	–
6.	Non-Fund Based – Letter of Credit	Short Term	58.00	IVR A3+	IVR A3+	IVR A3	–
7.	Non-Fund Based – Bank Guarantee	Short Term	0.41	IVR A3+	IVR A3+	IVR A3	–
8.	Fund Based / Non-Fund Based – Proposed	Long Term / Short Term	1.50	IVR BBB/ Stable / IVR A3+	IVR BBB/ Stable / IVR A3+	IVR BBB-/ Stable / IVR A3	–

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Press Release

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

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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 – Fund Based – Rupee Term Loans	–	–	Feb – 2028	2.79	IVR BBB-/Stable
Long Term – Fund Based – Working Capital Term Loans	–	–	Sep – 2025	0.38	IVR BBB-/Stable
Long Term – Fund Based – Guaranteed Emergency Credit Line	–	–	Sep – 2026	1.15	IVR BBB-/Stable
Long Term – Fund Based – Cash Credit	–	–	–	19.00	IVR BBB-/Stable

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term – Fund Based – Working Capital Demand Loan	–	–	–	2.00	IVR BBB-/Stable
Short Term – Non-Fund Based – Letter of Credit	–	–	–	58.00	IVR A3
Short Term – Non-Fund Based – Bank Guarantee	–	–	–	0.41	IVR A3
Long Term / Short Term – Fund Based / Non-Fund Based – Proposed	–	–	–	1.50	IVR BBB-/Stable / IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-Knest-nov23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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.