

September 28, 2017

Kirby Building Systems India(Uttaranchal) Private Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Cash Credit Limits	11.00	[ICRA]A+(Positive) outstanding
Non Fund Based Limits	312.00 (revised from Rs 277.00)	[ICRA]A1+ assigned/outstanding
Unallocated Limits	Nil (Earlier 22.00)	-

*Instrument details are provided in Annexure-1

Rating action

ICRA has an outstanding long term rating of [ICRA]A+(pronounced ICRA A plus) assigned to the Rs 11.00 crore¹ cash credit limits of Kirby Building Systems India (Uttaranchal) Private Limited (KBSIUPL). ICRA has assigned the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 312.00 crore (revised from Rs 277.00 crore) non fund based limits of KBSIUPL. The outlook on the long term rating remains 'positive'.

Rationale

While arriving at the rating, ICRA has taken a consolidated view of Kirby India(KI) which includes Kirby Building Systems India Private Limited (KBSIPL) and Kirby Buildings Systems India (Uttaranchal) Private Limited (KBSIUPL) given that KBSIPL is 100% subsidiary of KBSIUPL and both are in the same line of business.

The revision in the outlook takes into consideration the significant improvement in the order book position and pace of execution following a relatively improved demand scenario from end user segment. KI's operating income for the H1CY2017 grew by more than 15% to Rs 569.90 crore. Further, the outstanding order book of Rs 621.81 crore as on June 30, 2017 is expected to continue supporting the strong revenue growth in the near term. Further, the operating margins are expected to improve in the near term backed by advantages arising from the implementation of GST.

The assigned ratings continue to factor in strong parentage by virtue of being a wholly owned subsidiary of Alghanim Industries which has long standing experience of 40 years globally in Pre Engineered Building (PEB) system design, fabrication and supply; diversified client portfolio for supply of PEBs to reputed clients with KI completing many large projects for companies such as Skoda, Tata Group, Reliance Industries, Hindustan Unilever, Colgate Palmolive and Renault-Nissan etc; and geographically diversified sales network in India with sales offices in more than 15 cities. The ratings also factor in low gearing, healthy coverage indicators and low working capital intensity of the business with NWC/OI at 2% in CY2016. ICRA also notes the Strong brand image of Kirby in the domestic PEB business and the market leadership in the domestic PEB segment.

The ratings are, however, constrained by reduction in the liquidity position of the company with significant decline in cash balances following a payout of Rs. 324.08 crore to the promoter – Alghanim Industries (Mauritius) Limited – towards the buyout of its shareholding in KBSIPL by KBSIUPL, making KBSIPL a 100% subsidiary of KBSIUPL. The ratings also take into consideration the high TOL/TNW at 2.19 times as on June 30, 2017 on account of high creditors with company procuring raw material against

¹ 100 lakh = 1 crore = 10 million

LCs. The ratings are also constrained by high dependence of revenues on the capital investments across key user industries, which expose KI to any slowdown in the end user segment as seen in the past. The ratings also take into consideration the risks associated with fluctuations in raw material prices given that majority of the projects are fixed price contracts. Further, high competition with numerous large established players in the PEB manufacturing segment constraints the profitability margins which has been around 9-11% levels for the past three years.

Going forward continued increase in scale of operations while maintaining the profitability at stable levels and management of working capital requirements will remain the key sensitivity from a credit perspective. Quantum and funding of capex and use of surplus cash will remain key rating monitorable.

Key rating drivers

Credit strengths

- **Strong parentage:** KBSIPL is a wholly owned subsidiary of KBISUPL and KBSIUPL is a wholly owned subsidiary of Alghanim Industries, which has long standing experience of 40 years globally in the Pre Engineered Building (PEB) system design, fabrication and supply. Kirby has total installed cumulative capacity of 4,15,000 MT globally of which KI accounts for 2,00,000 MT.
- **Diversified client portfolio:** Kirby supply's PEBs to various industrial units and Kirby India has completed many large projects with cumulative installation of 521154 MT in the last four and half years. Kirby India has been associated with companies such as Nokia, Skoda, Tata Group, Reliance Industries, Hindustan Unilever, Colgate Palmolive, UNICEF, BMW, and Renault-Nissan in the past four years and KI gets repeat orders from its customers.
- **Geographically diversified sales network:** The sales offices of Kirby are present in more than 15 cities in India and the outstanding order book is also spread across the country.
- **Improved operating income over the last two years:** The operating income (OI) increased by 4% to Rs 973.96 crore in CY2016 from Rs 937.23 crore in CY2015 and the growth continued in CY2017 with OI increasing by 17% to Rs 569.90 crore in H1CY2017 mainly due to improved demand from end user segments. The outstanding book of Rs 621.81 crore as on June 30, 2017 is expected to support revenue growth in the near term.
- **Comfortable capital structure and healthy coverage indicators:** The gearing of the company is low at 0.04 times as on June 30, 2017 on account of very low debt levels. The interest coverage is at 9.50 times and 8.68 for CY2016 and H1CY2017 respectively while TD/OPBDITA has been low over the years on account of very low debt levels.

Credit weakness

- **Reduction in liquidity position:** The cash balances declined to Rs 139.59 crore as June 30, 2017 from Rs 353.93 crore as on December 31, 2016. The cash balances were used for buyout of 100% share by KBSIUPL from Alghanim Industries (Mauritius) Limited in KBSIPL at Rs 324.08 crore in H1CY2017.
- **High Total Outside Liabilities/Tangible Net Worth:** The TOL/TNW is high at 2.19 times as on June 30, 2017 at consolidated level on account of high creditors with the company procuring raw materials against LCs.
- **High dependence on capital investments:** The revenues are highly dependent on the capital investments across key user industries slowdown in the end user segment has affected the revenues of the company as seen in the past.
- **Highly competitive industry:** There are numerous large established players in the PEB manufacturing segment in India constraints margins; operating margins are in the range of 9-11% over the last three years.

- **Risk of exposure to fluctuations in raw material prices :** The company is exposed to risk associated with fluctuations in raw material prices given that majority of the orders are fixed price in nature; however quarterly price fixation with suppliers mitigates the risk to an extent.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable Criteria

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in the year 2005, Kirby Building Systems India (Uttaranchal) Private Limited (KBSIUPL) is into manufacturing and erection of Pre Engineered Buildings (PEBs). The company is wholly owned subsidiary of Alghanim Industries based out of Kuwait which has more than 30 businesses with operations in 40 countries. KBSIUPL has its manufacturing facilities located at Haridwar, Uttarakhand with an installed capacity of 1,00,000 MT per annum. Kirby Building Systems India Private Limited (KBSIPL) is wholly owned subsidiary of Kirby Building Systems India (Uttaranchal) Private Limited (KBSIUPL) and is also into manufacturing and erection of Pre Engineered Buildings (PEBs). KBSIPL has its manufacturing facilities located at Pashamylaram, Telangana near Hyderabad with an installed capacity of 100,000 MT per annum.

Key Financial Indicators (KBSIPL & KBSIUPL consolidated)

Particulars	CY2015	CY2016	H1CY2017*
Operating Income (Rs. crore)	937.23	973.96	569.90
Net Profit (Rs. crore)	61.59	76.52	33.61
OPBITDA/OI (%)	9.74%	11.61%	9.50%
RoCE (%)	25.40%	28.81%	30.26%
Total Debt / Tangible Net worth (times)	0.03	0.00	0.04
Total Debt / OPBITDA (times)	0.11	0.00	0.09
Interest coverage (times)	4.65	9.50	8.68
NWC/OI (%)	4%	2%	-4%

Source:KBSIPL&KBSIUPL and ICRA research ;*Provisional OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: KBSIPL and KBSIUPL are listed under the ‘Non Co-operation by the issuer’ category by CARE ratings due to inadequate information provided by the company.

Any other information: Not Applicable.

**Rating history for last three years
Table**

S. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type (Long term/ Short term)	Rated amount (Rs. Crore)	Month - year & rating in FY2018		Month – year & Rating in FY2017	Month – year & Rating in FY2016	Month - year & Rating in FY2015
1	Fund Based Limits	Long term	11.00	September 2017	August 2017	October 2016		
				[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)		
2	Non Fund Based Limits	Short Term	312.00	[ICRA]A1+	[ICRA]A1+	[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
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit Limits			-	11.00	[ICRA]A+(Positive)
Letter of Credit & Bank Guarantee			-	312.00	[ICRA]A1+

Source: KBSIUPL

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