

KET/SEC/SE/2020-21

September 30, 2020

BSE Limited

Floor 25, Phiroze Jeejeebhoy Tower,
Dalal Street,
Mumbai – 400 001

Scrip Code: 524109

National Stock Exchange India Limited,

Exchange Plaza, C-1, Block-G,
Bandra Kurla Complex, Bandra (East),
Mumbai-400051.

Stock Code: KABRAEXTRU

Dear Sirs,

Sub.: Intimation of reaffirmation of Credit Rating

In terms of Regulation 30 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with corresponding circulars and notifications issued thereunder, it is hereby informed that CRISIL Ltd. has reaffirmed its Ratings on the bank facilities of the Company. We forward herewith a copy of letter received from CRISIL Ltd. in respect thereof.

You are requested to take the above information on records.

Thanking you,

Yours truly,

For **Kabra Extrusiontechnik Ltd.**

Arya K. Chachad
Company Secretary

Encl.: As above

**Kabra Extrusiontechnik Limited**

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GSTIN : 27AAACK4289L2Z1

Works 1

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Works 2

Survey No. 259/1 to 5 260/1 to 6, 265/3, Coastal Highway, Dunetha, Daman-396210. India.
Tel.: +91-8511152180/8511152152/07227035211 • E-mail : ket@kolsitegroup.com

Works 1 & 2 GSTIN : 25AAACK4289L1Z6 / CIN-L28900MH1982PLC028535

Rating Rationale

September 29, 2020 | Mumbai

Kabra Extrusiontechnik Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.54 Crore
Long Term Rating	CRISIL A/Stable (Reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A/Stable/CRISIL A1' ratings on the bank facilities of Kabra Extrusiontechnik Limited (KEL).

During fiscal 2020, operating income declined by 10.2% fiscal-on-fiscal, due to subdued economic activity and lower execution of capex plans by major plastic pipe manufacturers during the fourth quarter of fiscal 2020, owing to disruptions caused by the Covid-19 pandemic. However, operating performance witnessed improvement during the first quarter of fiscal 2021 vis-a-vis corresponding period of the previous fiscal, despite the prolonged nationwide lockdown during the period. Company reported EBITDA (earnings before interest, tax, depreciation and amortization) of Rs 3 crore against operating loss reported during corresponding period of previous fiscal, led by cost-cutting measures resulting in lower fixed overheads costs.

Moreover, KEL has completed its major capex programme pertaining to manufacturing plant for lithium-ion battery packs for electric vehicles (EVs); with production being commenced during March 2020. Timely stabilization of operations in the segment, with growing scale and profitability will remain a key monitorable.

Despite the pandemic-led economic disruptions, KEL's business risk profile should sustain driven by established position in the plastic extrusion machinery industry and healthy order book of more than Rs 125 crore as on August 31, 2020. Moreover, liquidity remains adequately supported by unencumbered cash equivalents/liquid investments of Rs 35 crore as on August 31, 2020.

The ratings continue to reflect KEL's established market position and strong financial risk profile. These strengths are partially offset by modest scale of operations, exposure to intense competition, and susceptibility to cyclicity in the plastic products industry.

Analytical Approach

For arriving at the rating, CRISIL has evaluated the business and financial risk profiles of KEL on a standalone basis.

Key Rating Drivers & Detailed Description

Strengths

* **Established market position:** KEL has an established track record of more than three decades, in manufacturing and commissioning of plastic extrusion machinery. The company is among the largest manufacturers of plastic extrusion machinery in India, particularly in the pipes extrusion machinery market, wherein it has a market share of 25-30%. KEL also caters to the overseas market, with strong presence in African, West Asian, and South East Asian markets.

Favourable industry scenario, with higher investments envisaged in domestic irrigation, water supply and sanitation segments over the medium term backed by various government initiatives, should continue to support the business.

* **Completion of major capex in the EV battery packs segment:** KEL completed its major capex pertaining to the manufacturing plant for lithium-ion battery packs for EVs; the production commenced in March 2020. Against initial estimated capex of Rs 65 crore, the company incurred total capex of around Rs 50 crore over fiscals 2019 and 2020, with Rs 5-10 crore to be incurred in fiscal 2021. Though the pandemic-led lockdown resulted in disruption of production during the first quarter of fiscal 2021, gradual ramp-up of production and growing revenue contribution from the segment is expected from fiscal 2022 onwards.

Timely stabilisation of operations in the segment, with growing scale and profitability will remain a key monitorable.

* **Strong financial risk profile:** The financial risk profile remains healthy, backed by low debt and moderate networth. Overall gearing remains comfortable at 0.12 times as on March 31, 2020, led by low working capital debt along with lower-than-envisaged debt availed for the major capex programme. Debt protection metrics were also robust, with interest coverage ratio of 10.62 times (11.09 times in the previous fiscal).

The financial risk profile should remain healthy over the medium term, backed by increasing cash accrual, adequate liquidity and absence of any large capex plans.

Weaknesses

* **Exposure to intense competition:** Domestic extrusion machinery segment is highly fragmented, characterised by presence of various small and micro players which limits pricing power. Therefore, KEL is exposed to competition from domestic players and imported extrusion machinery. Also, the segment is technology-intensive and is susceptible to the risk of technological obsolescence. However, the same is mitigated partly through KEL's technological tie-ups and strategic collaborations with international players such as Battenfeld-Cincinnati (Germany), Penta Srl (Italy), Unicor GmbH (Germany) and Mecanor Oy (Finland).

* **Cyclicality in plastic products industry:** The demand for extrusion machinery is mainly linked to the capex programmes of plastic products manufacturers, rendering KEL vulnerable to investment plans of its customers, especially during an economic slowdown when many companies may defer or postpone their capex plans.

Liquidity Adequate

Liquidity remains adequate with cash equivalents/liquid investments of around Rs 35 crore as on August 31, 2020. Further, fund-based bank limit utilisation averaged 54% over the four months through July 2020, thereby providing additional liquidity in the form of unutilised bank limits. Available liquidity and expected annual cash accrual of Rs 15-25 crore in fiscals 2021 and 2022, should suffice to cover the debt obligation and moderate capex plan.

Outlook: Stable

KEL should continue to benefit from its established market position in the plastic extrusion machinery segment, while the financial risk profile should remain comfortable supported by adequate liquidity.

Rating sensitivity factors

Upward factors

- * Strong revenue growth in the plastic extrusion segment along with significant scale up of operations in the EV battery packs business on a sustainable basis
- * Sustained improvement in the operating margin above 11%, leading to higher cash accrual

Downward factors

- * Delay in stabilisation of operations in the EV battery packs business, leading to lower-than-expected revenue contribution in fiscals 2021 and 2022
- * Operating margin sustaining below 8%
- * Any large, debt-funded capex

About the Company

Incorporated in 1982, KEL is a part of the Kolsite group of companies. It manufactures plastic extrusion machinery and mono and multilayer blown film plants, used in industries such as pipes and packaging. Its manufacturing facilities are in Daman. During fiscal 2020, KEL also entered into EV battery packs segment, with a new manufacturing facility in Pune. The company has technological tie-ups with Battenfeld Extrusionstechnik GmbH, Germany, which is valid till 2026 and Unicor GmbH. KEL also has Department of Scientific and Industrial Research (Government of India) approved in-house research and development division, which enables the launch of new models and upgrade of existing models.

For the three months ended June 30, 2020, operating income was Rs 37 crore and net loss was Rs 0.2 crore, against Rs 35 crore and Rs 6 crore, respectively, during corresponding period of previous fiscal.

Key Financial Indicators

As on / for the period ended March 31	Unit	2020	2019
Operating income	Rs crore	219	245
Profit after tax (PAT)	Rs crore	7	24
PAT margin	%	3.4	10.0
Adjusted debt/adjusted networkth	Times	0.12	0.04
Adjusted interest coverage	Times	10.62	11.09

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue (Rs Cr)	Complexity level	Rating outstanding with Outlook
NA	Cash credit @	NA	NA	NA	9	NA	CRISIL A/Stable
NA	Cash credit @@	NA	NA	NA	20	NA	CRISIL A/Stable
NA	Working Capital Facility @@@	NA	NA	NA	20	NA	CRISIL A/Stable
NA	Letter of credit	NA	NA	NA	1	NA	CRISIL A1
NA	Bank Guarantee	NA	NA	NA	3	NA	CRISIL A1
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	1	NA	CRISIL A/Stable

@Interchangeable up to Rs 7.5 crore with export packing credit, packing credit in foreign currency, export bill discounting/rediscouting.

@@Fully interchangeable with working capital demand loan, export packing credit, standby letter of credit, letter of credit and Interchangeable up to Rs 5 crore with bank guarantee.

@@@Fully interchangeable with working capital demand loan; Interchangeable up to Rs 10 crore with cash credit, letter of credit, buyer's credit; Interchangeable up to Rs 10 crore with export packing credit, foreign bills purchase/discounting/negotiation, post-shipment credit in foreign currency; and Interchangeable up to Rs 5 crore with bank guarantee, standby letter of credit.

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	50.00	CRISIL A/Stable			19-06-19	CRISIL A/Stable	23-02-18	CRISIL A+/Stable	18-05-17	CRISIL AA-/Negative	CRISIL AA-/Negative
						10-01-19	CRISIL A+/Negative					
						08-01-19	CRISIL A+/Negative					
Non Fund-based Bank Facilities	LT/ST	4.00	CRISIL A1			19-06-19	CRISIL A1	23-02-18	CRISIL A1+	18-05-17	CRISIL A1+	CRISIL A1+
						10-01-19	CRISIL A1					
						08-01-19	CRISIL A1					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	3	CRISIL A1	Bank Guarantee	3	CRISIL A1
Cash Credit@	9	CRISIL A/Stable	Cash Credit*	9	CRISIL A/Stable
Cash Credit@@	20	CRISIL A/Stable	Cash Credit**	40	CRISIL A/Stable
Letter of Credit	1	CRISIL A1	Letter of Credit	1	CRISIL A1
Proposed Long Term Bank Loan Facility	1	CRISIL A/Stable	Proposed Long Term Bank Loan Facility	1	CRISIL A/Stable
Working Capital Facility@@@	20	CRISIL A/Stable	--	0	--
Total	54	--	Total	54	--

@Interchangeable up to Rs 7.5 crore with export packing credit, packing credit in foreign currency, export bill discounting/rediscouting.

@@Fully interchangeable with working capital demand loan, export packing credit, standby letter of credit, letter of credit and interchangeable up to Rs 5 crore with bank guarantee.

@@@Fully interchangeable with working capital demand loan; Interchangeable up to Rs 10 crore with cash credit, letter of credit, buyer's credit; Interchangeable up to Rs 10 crore with export packing credit, foreign bills purchase/discounting/negotiation, post-shipment credit in foreign currency; and Interchangeable up to Rs 5 crore with bank guarantee, standby letter of credit.

*Interchangeable up to Rs 7.5 crore with export packing credit, fully interchangeable with bill discounting, interchangeable up to Rs 7.5 crore with export bill discounting/negotiation.

**Fully interchangeable with packing credit, working capital demand loan, foreign bills purchase/discounting/negotiation, post-shipment credit in foreign currency, buyer's credit, and letter of credit (Rs 30 crore); interchangeable up to Rs 10 crore with bank guarantee

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
CRISILs Criteria for rating short term debt

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