August 16, 2022

Keltron Component Complex Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Cash credit limits	11.25	10.25	[ICRA] B+(Stable); reaffirmed
Short term – Non-fund based limits	12.75	12.75	[ICRA]A4; reaffirmed
Total	**24.00**	**23.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings considers an increase in Keltron Component Complex Ltd's (KCCL) revenues to Rs. 82.49 crore in FY2022 from Rs. 72.86 crore in FY2021. The operating margin also improved to 10.2% in FY2022 compared to 8.8% in FY2021. However, the ratings continue to remain constrained by weak debt coverage indicators with an interest coverage of 1.72 times in FY2022. While the net worth turned positive at Rs. 6.92 crore in FY2022, it continues to remain modest. The working capital intensity also remained high with the net working capital to operating income (NWC/OI) of 28% in FY2022 compared to 14% in FY2021 owing to high inventory and debtor levels. The ratings are also constrained by moderate capacity utilisation of aluminium electrolyte due to intense competition from the Chinese players, which has kept the revenues range bound over the past few years. ICRA notes that given its weak financial position, the company had submitted a proposal to convert the loans availed from the GoK into equity. However, the same is pending with the GoK. KCCL is accruing interest on these GoK loans, which resulted in weak net worth position. Nonetheless, the ratings consider the continued financial support received by KCCL from the parent entity, the Government of Kerala (GoK), and its established presence in the manufacturing of capacitors.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that the company would continue to benefit from its established products and support from the GoK.

Key rating drivers and their description

Credit strengths

Steady increase in revenues – KCCL's operating income increased to Rs. 82.49 crore in FY2022 from Rs. 72.86 crore in FY2021 owing to an increase in sales of both electrolytic and MPP capacitors and capacity increase of MPP capacitors from March 2021.

Financial support from GoK and adequate liquidity position – The company received financial support from its parent entity, GoK, which holds a 21.33% stake. KCCL received loans from GoK for funding the working capital and investment requirements in the past. Further, interest on these loans is accrued but is not paid as the company had submitted a proposal with the GoK for conversion of these loans into equity. The conversion will be a key monitorable from the credit rating perspective. The liquidity is also adequate as reflected from Rs. 7-8 crore of free cash and equivalents apart from the cushion of approximately Rs. 7 crore in working capital limits.

Established presence in domestic electronic components industry – The company was established in 1974 and has extensive experience in the domestic aluminium electrolytic capacitor and MPP capacitor manufacturing. Around 75-80% of the total sales is made through the dealer network and the rest is directly sold to the OEMs, including Crompton Greaves, L&T, Exide, Stranger, etc.

Credit challenges

Weak financial risk profile – The company's financial risk profile remained weak with modest net worth levels due to past losses. Further, the debt protection metrics remained adverse with an interest coverage of 1.72 times and Debt/OPBDIT of 3.08 times in FY2022.

Moderate working capital intensity – The company's working capital intensity remained moderate with NWC/OI of 28% in FY2022. KCCL holds finished goods inventory of about two months mainly because of its wide product profile. It extends a credit period of 45-60 days to traders and 90 days to OEMs, which gets delayed and result in high debtor days.

Intense competition from Chinese players restricts pricing flexibility – The capacitor industry is highly fragmented with many small players and significant Chinese imports, which are available at lower prices. Intense competition affected pricing flexibility and constrained the profit margins of KCCL over the years.

Liquidity position: Adequate

The company's liquidity position is **adequate**, as reflected by low utilisation of working capital limits in the past 12 months ending in June 2022. Lack of repayment obligations and moderate working capital intensity of business support its liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company scales up its revenues while maintaining operating margins, leading to healthy cash accruals. The ratings could also be upgraded on conversion of loans from GoK into equity, improving its net worth levels.

Negative factors – The ratings could be downgraded in case of a sharp decline in revenues and operating margins, resulting in subdued cash accruals. Delays in payments from customers, adversely impacting the company's liquidity position, or Total Debt/OPBDITA rising above 5 times on a sustained basis, could be a trigger for ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	None
Consolidation/Standalone	Standalone

About the company

Keltron Component Complex Ltd (KCCL) is a subsidiary of Kerala State Electronics Development Corporation Limited (KSEDC), a Government of Kerala undertaking. KSEDC produces various products ranging from discrete electronics components to complex telecom equipment and other systems. KSEDC entered the electronic components space by setting up an aluminium electrolytic capacitor plant in technical collaboration with Spargue Electromag Belgium in 1976 under KCCL in Kannur, Kerala. Aluminium electrolytic capacitors and metallised plastic film capacitors are the major product segments of KCCL, which contributed more than 90% to its total revenues in FY2021.

Key financial indicators

KCCL	FY2021(A)	FY2022(Prov)
Operating Income (Rs. crore)	72.86	82.49
PAT (Rs. crore)	1.38	3.12
OPBDIT/OI (%)	8.8%	10.2%
PAT/OI (%)	1.9%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	-10.36	10.94
Total Debt/OPBDIT (times)	3.48	3.08
Interest Coverage (times)	1.43	1.72

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					August 16,2022	September 20,2021	July 10,2020	July 23,2019
1	Long term – Cash credit limits	Long term	10.25	-	[ICRA] B+(Stable)	[ICRA] B+(Stable)	[ICRA] B+(Stable)	[ICRA] B+(Stable)
2	Short term – Non-fund based limits	Short term	12.75	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Cash credit limits	Simple
Short term – Non-fund based limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Cash credit limits	-	-	-	10.25	[ICRA] B+(Stable)
NA	Short term – Non-fund based limits	-	-	-	12.75	[ICRA]A4

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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