February 03, 2023

KL Hi-Tech Secure Print Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based limits - Cash credit	25.00	25.0	[ICRA]BBB (Stable); Reaffirmed
Long-term/Short term - Non-fund based limits	25.00	25.0	[ICRA]BBB (Stable)/ [ICRA]A3+; Reaffirmed
Long-term - Fund-based - Term loans	3.95	12.0	[ICRA]BBB (Stable); Reaffirmed
Long-term/Short-term - Unallocated	8.05	0.0	-
Total	**62.0**	**62.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation favourably factors in the established track record of KL Hi-Tech Secure Print Limited (KHSPL) in the secure printing business and reputed customer base with repeat orders from the banking institutions and Government entities such as Canara Bank, Central Bank of India, Punjab National Bank, Maharashtra State Board of Secondary and Higher Secondary Education, Unique Identification Authority of India (UIDAI), etc. The secure printing segment has a long validation cycle, which along with the high capital intensity in the business restricts the entry of unorganised players and ensures relatively better margins against the other printing sub-segments. The ratings are, however, constrained by KHSPL's modest scale of operations, working capital-intensive operations and sizeable annual capex requirement, which keeps the overall cash flows under check. The working capital intensity increased to 36% in FY2022 from 13% in FY2019 owing to an increase in inventory days. Given the supply chain issues in procurement of chips, the company had to procure the same against advances. Previously, it procured the same by availing a credit period. This, along with the increased stocking of inventory resulted in higher working capital requirements over the past two years.

Sharp increase in raw material prices (especially chip module prices in the backdrop of semi-conductor supply constraints) impacted the operating profitability over the last two years, as most of its contracts are fixed price in nature. With revision in contract prices from H2 FY2023, the operating margins are expected to improve in the near term and remains a key rating monitorable. The company reported a healthy order book position of Rs. 270.8 crore as on October 21, 2022 and it is estimated to witness revenue growth of over 40% in FY2023. ICRA notes that KHSPL has already clocked gross revenues of Rs. 133 crore in 9M FY2023 against Rs. 92.2 crore during the last fiscal. Further, the top five customers accounted for 48% of revenue in FY2022, indicating the moderately high client concentration risk. While the client concentration is likely to remain high over the medium term, the counterparty risk is relatively low as most of its sales is towards a financially strong clientele. KHSPL is expected to incur significant capex every year to upgrade machinery to ensure security compliances, meet evolving technology needs and add new products, thereby resulting in negative free cash flows as witnessed in the past. Going forward, given the strong ramp-up in operations, the company's ability to manage its working capital cycle judiciously and improve its profitability remains the key rating sensitivities.

The Stable outlook on [ICRA]BBB rating reflects ICRA's opinion that the revenues are likely to increase, driven by the healthy order book position and expected improvement in debt coverage metrics on the back of improved earnings.

Key rating drivers and their description

Credit strengths

Established track record of KHSPL in secure printing industry – Incorporated in 1986, the company started its operations with lottery tickets printing, banking stationery and education material printing. In FY2017, it ventured into manufacturing banking cards. Over the years, KHSPL has grown as an end-to-end secure print service provider offering varied services such as security printing, digital printing, book printing, banking cards, smart cards, recharge cards, examination solutions, etc. It specialises in offering solutions to banking, publishing, Government, telecom segments, etc. The secure printing segment has a long validation cycle, which along with the high capital intensity in the business restricts the entry of unorganised players and ensures relatively better margins against other printing sub-segments.

Reputed customer profile – KHSPL's client profile includes reputed players such as UIDAI, Central Bank of India, Canara Bank, Punjab National Bank, along with state government education departments. The company mainly participates in tenders floated by the Government entities for securing the orders. Further, the counterparty risk is relatively low because of the reputed and financially strong clientele.

Credit challenges

Weakened financial risk profile due to negative operating leverage and deterioration in working capital intensity – The working capital intensity increased to 36% in FY2022 from 13% in FY2019 owing to an increase in inventory days. Given the supply chain issues in procurement of chips, the company had to procure them against advances. Previously, it procured the same by availing credit period. This, along with the increased stocking of inventory resulted in higher working capital requirements over the past two years. Moreover, most contracts are fixed price in nature, whereas sharp increase in raw material prices (especially of semiconductor) and negative operating leverage has dragged the overall profitability. Consequently, the coverage metrics weakened over the last few years. With revision in contract prices from H2 FY2023, the operating margins are expected to improve in the near term and remains a key rating monitorable.

High customer concentration risk – The customer concentration risk is high with top five customers accounting for 48% of the revenues in FY2022. Further, the top three customers constitute 63% of the order book and the customer concentration risk is expected to continue in the near term.

High capex requirements – The company's capex requirements are high as the security printing business requires special machinery to meet the evolving technology needs, new products and security compliance, etc. It incurred a total capex of Rs. 21.95 crore during the past three years to add and upgrade its machinery, resulting in negative free cash flows. Further, KHSPL plans to incur a capex of Rs. 10 crore in FY2023 for addition of new machinery and construction of a new building, which is expected to be met by term loans and internal accruals.

Liquidity position: Adequate

The company's liquidity position is adequate with moderate utilisation of working capital limits during the past six months. Further, low repayments of Rs. 1.32 crore in FY2023 and timely realisation of payments are likely to support its liquidity position in the near term. The balance capex of around Rs. 10 crore will be funded through internal accruals and sanctioned term loan.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant improvement in the company's scale of operations and profitability resulting in improvement in debt protection metrics and liquidity position on a sustained basis.

Negative factors – The ratings could be downgraded if the company witnesses a material decline in revenues or earnings, thereby resulting in deterioration of debt coverage metrics or liquidity position. Specific credit metrics that could lead to a downgrade of KHSPL's ratings include interest coverage of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials.

About the company

Kl Hi-Tech Secure Print Limited (KHSPL) is a public limited company incorporated on August 05, 1986 by Mr. P. Srinivas Rao and his family members. It provides secure printing solutions to corporate organisations, financial institutions, and banks. Its production facility is in IDA, Bollaram, Medak District with a floor area of about 75,000 square feet, with clearly demarked areas for pre-press, production, post production, despatch and raw material storage. The company is constructing a building with a total project cost of Rs. 18.0 crore, which will funded by a term loan of Rs. 8.0 crore and Rs. 10.0 crore of unsecured loans/internal accruals. Except banking cards, all other segments will be moved to a new factory building.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	112.9	92.2
PAT	2.7	1.2
OPBDIT/OI	10.7%	10.2%
PAT/OI	2.4%	1.3%
Total outside liabilities/Tangible net worth (times)	1.3	1.7
Total debt/OPBDIT (times)	2.7	4.6
Interest coverage (times)	3.1	2.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of press release
CRISIL	CRISIL B; Stable; Issuer not cooperating. CRISIL A4 Issuer not cooperating	December 13,2022

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 on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				feb 03,2023	November 14, 2022	October 05, 2021	November 05, 2020	December 03, 2019
1 Fund-based limits- Cash credit	Long-term	25.0	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2 Non-fund based- BG	Long term/short term	25.0	-	**[ICRA]BBB (Stable)/[ICRA] A3+**	**[ICRA]BBB (Stable)/[ICRA] A3+**	**[ICRA]BBB (Stable)/[ICRA] A3+**	**[ICRA]BBB (Stable)/[ICRA] A3+**	**[ICRA]BBB (Stable)/[ICRA] A3+**
3 Fund-based-Term loan	Long-term	12.0	12.0	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	-	-
4 Unallocated limits	Long term/short term	-		-	**[ICRA]BBB (Stable)/[ICRA] A3+**	**[ICRA]BBB (Stable)/[ICRA] A3+**	**[ICRA]BBB (Stable)/[ICRA] A3+**	**[ICRA]BBB (Stable)/[ICRA] A3+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based limits – Cash credit	Simple
Long-term/Short term – Non-fund based limits	Very Simple
Long-term - Fund-based – Term loans	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	25.0	[ICRA]BBB (Stable)
NA	**Bank guarantee**	NA	NA	NA	25.0	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	**Term loan**	January 2021	NA	March 2024	12.0	[ICRA]BBB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Doddapanani Bhavya
+91 40 4067 6519
doddapanani.bhavya@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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