Kamdhenu Limited

September 1, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	122.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	20.00	CARE A2+ (A Two Plus)	Reaffirmed and removed from Credit watch with Developing Implications
Total Bank Facilities	**142.00 (₹ One Hundred Forty-Two Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE has removed credit watch with developing implications and reaffirmed the ratings at CARE A-/ CARE A2+ assigned to the bank facilities of Kamdhenu Limited (Kamdhenu) following the completion of demerger of paints division vide order dated June 03, 2022 from National Company Law Tribunal (NCLT) which became effective from April 01, 2022.

The reaffirmation of ratings of Kamdhenu continue to derive comfort from the experienced promoters, company's long track record of operations and its established dealer and franchise network with a diversified customer base. The ratings also continue to take comfort from Kamdhenu's comfortable financial risk profile characterised by comfortable overall gearing and debt coverage indicators which are further expected to improve on account of reduced debt levels due to demerger of paints division. The ratings take cognizance of the growth reported in total operating income and profitability during FY22 (refers to period April 01 to March 31) on account of growth in manufacturing sales, royalty income from the franchise business and trading income.

The ratings, however, continue to remain constrained by Kamdhenu's exposure to raw material price volatility, its working capital-intensive nature of operations with elongated collection period and exposure to highly competitive and cyclic nature of steel industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability of the company to effectively manage the raw material price volatilities leading to sustained blended PBILDT per ton above Rs. 5,800 per ton.
- Sustenance in total operating income above Rs. 700 crores and GCA above Rs. 40 crores on a sustained basis
- Ability of the company to effectively manage its working capital requirements leading to improvement in operating cycle below 60 days on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in TOI below Rs. 400 crore and PBILDT margins below 5%
- Significant deterioration in the operating cycle beyond 100 days adversely impacting the liquidity position of the company
- Deterioration in financial risk profile of the company with overall gearing above 0.60x and TOL/TNW above 1.20x on a sustained basis.
- Any higher than envisaged exposure in Kamdhenu Colour and Coatings Limited through loans & advances or corporate guarantee adversely impacting financial risk profile of the company.

Detailed description of the key rating drivers

Key rating strengths

Established dealer and franchise network along with diversified customer base

Kamdhenu is one of the strong retail brands in Thermo-mechanically treated (TMT) Bars sales in India. The company operates a franchise network wherein individual manufacturers are integrated with dealer network of Kamdhenu and provided the technical expertise to manufacture TMT bars under the brand name of Kamdhenu (registered trademark under the name of the company). The company earns a royalty income on sale of products under franchise model strengthening the profitability of the company. The company leverages its marketing network to deliver the finished goods from franchise units to the dealers. The widespread dealer network enables the company to reach across the country. As on March 31, 2022, the company had over 81 franchisees in steel business under the Kamdhenu Brand, and a dealer network consisting of more than 12,000 dealers (combined for steel and paint) and more than 250 distributors. Top 10 customers of the company account for ~39% of total operating income in FY22 (~35% in FY21).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable financial risk profile

Financial risk profile of the company remains comfortable with overall gearing of 0.48 times as on March 31, 2022 slightly improved from 0.59 times as on March 31, 2021 and interest coverage ratio also stood comfortable at 5.60x in FY22 improved from 3.52x in FY21. The improvement is led by accretion of profits to net worth and lower WC utilization as at year end. During Q1FY22, the company had taken COVID loan from State Bank amounting to Rs. 15.92 crores mainly to avail lower interest rates benefits and were utilised for regular WC requirements of business and accordingly reduced the WC limits usage. The company does not have any concrete plans to avail any fresh term loan in near future. Demerger of paints division has been completed and bifurcation of sanctioned bank limits by lenders is under progress which shall result into reduced debt exposure in the company leading to further improvement in company's financial risk profile going forward.

Growth reported in scale of operations and profitability during FY22

The total operating income has grown to Rs. 840.76 crores in FY22 from Rs. 625.22 crores in FY21 registering a healthy growth of 34.47%. The growth was largely on account of healthy demand for company's products across steel and paints division reflecting in growth in sales quantities and also on account of higher sales realization. The company reported improvement in PBILDT to Rs.58.62 crore during FY22 from Rs.49.07 crore in FY21 though the PBILDT margins moderated marginally to 6.97% in FY22 (PY: 7.85%) primarily on account of higher trading activity for steel products which generates lower margin, however the margins are expected to improve further on account of demerger of paints division. During the year FY22, company has also written off Rs. 5.83 crores (PY: Rs. 10.03 crores shown as exceptional item) on account of write down of insurance claim upon final settlement with respect to loss suffered due to fire incident at Paint Division during FY20. Despite the same, company has reported improvement in PAT margin and stood at 3.13% in FY22 (PY: 2.41%). Further growth of 31.11% reported during Q1FY23 year on year basis to Rs. 191.24 crores over Rs. 145.86 crore in Q1FY22 (for steel division only). Going forward, company's ability to sustain the growth in income and margins post demerger of paints division shall be a key rating sensitivity.

Key rating weaknesses

Highly competitive and cyclic nature of industry

The steel bars industry is highly competitive with presence of various organized and unorganized players, expanding applications of steel bars and low entry barriers. Margins continue to remain under pressure due to fragmented nature of industry. Also, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, geo-political scenarios, interest rates and seasonal changes in the demand and supply. Furthermore, the value addition in the steel construction materials like TMT bars, MS angles and channels, etc. is also low, resulting into low product differentiation in the market. The producers of steel construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices. However, Kamdhenu's long standing position in steel bars industry and long-term association with reputed customers have enabled the company to withstand any downtrend in steel cycles over the years.

Exposure to raw material price volatility

The major raw material for Kamdhenu's products are steel ingots and billets, the prices of which being a steel commodity remain volatile. The company sources its raw material from manufacturers/ traders located in various states such as Orissa, Karnataka, Chhattisgarh, and Uttar Pradesh etc. The raw material cost constituted around 70 to 75% of company's total operating income, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. Although, the company has been able to partially pass on the volatility in raw material prices to customers. Further, the franchise model of the company has fixed margins (average royalty income Rs. 350-450 per ton) and contributes to significant portion of total PBILDT, helps the company to manage the said risk.

Working capital intensive nature of operations with elongated collection period

Operations of the company i.e. steel and paint division both are working capital intensive represented by high collection period from customers as it generally offers credit period of 30 to 45 days and around 90 days under steel and paints business respectively, while extends 15 days and 45 days.

Average collection period stood at 96 days as on March 31, 2022 improved from 138 days as on March 31, 2021. The company maintains stock of close to 15 to 30 days under steel business and 30 to 45 days under paints business. The working capital cycle of the company improved to 87 days as on March 31, 2022 from 118 days as on March 31, 2021. The larger working capital cycle was mainly on account of paints division. The average fund based working capital utilization of the company stood at 65.36% for trailing 12 months period ending with June 30, 2022. Going forward, company's operating cycle is expected to improve due to demerger of paints division. Any significant increase in company's working capital requirements shall be negative from credit perspective.

Liquidity: Adequate

The company has adequate liquidity with expected gross cash accruals of approx. Rs. 38 crores in FY23 against low repayment obligations ~Rs. 1.20 crore (for steel division only) in current year. The company also maintains free cash and cash equivalent of Rs. 4.27 crores as on June 30, 2022. Further, with a gearing of 0.48 times as of March 31, 2022, the company has sufficient gearing headroom to raise additional debt to support any cash flow mismatch or incremental WC needs, if any. Its unutilized bank lines of 37.36% amounting close to Rs. 37 crores as on June 30, 2022 are more than adequate to meet its incremental working capital needs over the next one year.

Analytical approach: Standalone

Applicable criteria
Policy on Default Recognition
Criteria on Assigning 'Outlook' or 'Credit Watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology- Manufacturing Companies
Rating Methodology - Steel Industry
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the company
Kamdhenu Limited (Kamdhenu) was incorporated in September 1994 and started commercial operations in October 1995. The company has its plant in Bhiwadi, Rajasthan, for manufacturing of TMT bars with the capacity of 1,20,000 tonne per annum (TPA) and ingots of 22,500 TPA as on March 31, 2022. Kamdhenu also operates through franchisee arrangement with steel rolling mills, providing the mills, right to produce and sell TMT bars under brand name of 'Kamdhenu.'. The company also has two wind power plants with capacity of 1.25 MW and 0.6 MW at Jaisalmer, Rajasthan as on March 31, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	625.22	840.76	191.24
PBILDT	49.07	58.62	15.42
PAT	15.09	26.32	10.04
Overall gearing (times)	0.59	0.48	Not Available
Interest coverage (times)	3.52	5.60	18.44

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	20.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	-	100.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	March 2027	22.00	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+	-	1)CARE A2+ (CWD) (07-Oct-21) 2)CARE A2 (CWD) (10-Aug-21)	1)CARE A2 (CWD) (28-Aug-20)	1)CARE A2 (CWN) (11-Feb-20) 2)CARE A2+ (CWN) (04-Jul-19) 3)CARE A2+ (CWN) (07-May-19)
2	Fund-based - LT-Cash Credit	LT	100.00	CARE A-; Stable	-	1)CARE A- (CWD) (07-Oct-21) 2)CARE BBB+ (CWD) (10-Aug-21)	1)CARE BBB+ (CWD) (28-Aug-20)	1)CARE BBB+ (CWN) (11-Feb-20) 2)CARE A- (CWN) (04-Jul-19) 3)CARE A- (CWN) (07-May-19)
3	Fund-based - LT-Term Loan	LT	22.00	CARE A-; Stable	-	1)CARE A- (CWD) (07-Oct-21) 2)CARE BBB+ (CWD) (10-Aug-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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