Kamdhenu Limited

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	122.00 (Reduced from 130.00)	CARE A- (CWD) (Single A Minus) (Under Credit watch with Developing Implications)	Revised from CARE BBB+ (Triple B Plus); Continues to be on Credit watch with Developing Implications
Short Term Bank Facilities	20.00	CARE A2+ (CWD) (A Two Plus) (Under Credit watch with Developing Implications)	Revised from CARE A2 (A Two); Continues to be on Credit watch with Developing Implications
Total Bank Facilities	**142.00 (Rs. One Hundred Forty-Two Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the ratings of Kamdhenu Limited, while ratings continue to remain under credit watch with developing implications.

The revision in the ratings of Kamdhenu Limited factors in the improvement in financial risk profile of the company marked by improvement in total operating income and profitability during Q1FY22 (refers to the period April 01 to June 30) over Q1FY21, leading to improvement in liquidity position of the company coupled with receipt of insurance claim money amounting to Rs. 15.44 crore in H1FY22 (refers to the period April 01 to September 30). The ratings also take into consideration the approval of first motion application of Scheme of arrangement from H'onble NCLT (National Company Law Tribunal) and further approval from various stakeholders including shareholders, secured and unsecured creditors in the meeting convened by National Company Law Tribunal on September 25, 2021. The ratings continue to remain under credit watch with developing implications as the final approval from National Company Law Tribunal on the second motion application of scheme of arrangement filed by the company on October 05, 2021 is still under process. CARE shall evaluate the ratings once the process of demerger of paints division is completed in entirety. The proposed demerger shall be beneficial for the company as the paint division will be completely hived off and overall financial risk profile of the company is expected to improve marked with improvement in overall gearing and debt coverage indicators with outgo of substantial debt.

The ratings continue to derive strength from experienced promoters, the company's long track record of operations and its established dealer and franchise network with a diversified customer base. The ratings also continue to factor in the company's steady operational performance with more focus on higher margin manufacturing operations, franchise segment and its moderate financial risk profile marked by comfortable overall gearing and debt coverage indicators.

The ratings, however, continue to remain constrained by Kamdhenu's exposure to raw material price volatility, elongating operating cycle, sustained losses from paint division and highly competitive and cyclic nature of industry.

Rating Sensitivities:

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

- Ability to generate Total operating income above Rs. 500 crores from steel division on sustained basis post hiving off paint division.
- PBILDT margin above 9% on sustained basis
- Improvement in overall gearing to below 0.40x on a sustained basis

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

- Decline in TOI from steel division below Rs. 400 crore and PBILDT margins below 6%
- Significant deterioration in the operating cycle and liquidity position
- Overall gearing above 1x on a sustained basis.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Detailed description of the key rating drivers:

Key Rating Strengths:

Improvement in operational and financial performance during Q1FY22

The company has reported improvement in operational and financial performance during Q1FY22 as compared to corresponding period previous year with a growth of 65.50% with total operating income of Rs. 145.86 crore and PBILDT of Rs.11.58 crore with better profitability margins as the lockdowns were localized and guidelines were eased during Covid-19 second wave and had less adverse impact on company's financial performance. Further the company received an insurance claim of Rs.15.44 crore pertaining to loss of stock during Q2FY22 (refers to the period July 01 to September 30). Improvement in operational cash flows coupled with receipt of insurance money led to reduction in utilization of working capital limits with unutilized limits of ~48% as at August end providing sufficient liquidity buffer.

During FY21 (refers to the period April 01 to March 31) the company reported improvement in PBILDT margins of the company to 7.96% in FY21 as against 4.68% during FY20 though on lower total operating income of Rs. 625.22 crores (PY: Rs. 961.96 crores). The lower turnover was largely on account of strategic management decision of eliminating low margin steel trading sales. Further, the improvement in realizations of TMT and higher margins royalty income from franchisee segment contributed to improvement in PBILDT margins.

Experienced promoters and long track record of operations of the company

Promoters of the company have experience of around four decades in the steel industry, which helped the company to leverage its brand and extend the reach. The company has a long track record of around 26 years in steel business and nearly one decade in paints business and has established its brand over the years.

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, 2021, the company had over 81 units under the Kamdhenu Brand, and a network consisting of more than 11,500 dealers and distributors. The company has diversified customer base for both steel and paints division.

Moderate financial risk profile

The company has moderate financial profile characterised by comfortable overall gearing and debt coverage indicators. The overall gearing of the company improved to 0.59x as on March 31, 2021 (PY: 0.77x) largely on account of lower working capital utilization and accretion of profits to reserves. PBILDT interest coverage of the company moderated marginally to 3.66x during FY21 (PY: 3.77x) on account of increased interest cost on Covid loans taken by the company, however the same remained at comfortable levels. The overall gearing further improved and stood at 0.52x as on June 30, 2021.

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 and expanding applications of steel bars. 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, interest rates and seasonal changes in the demand and supply.

Paint industry is highly competitive with no entry exit barriers and presence of many small unorganized players, however the same has been partially mitigated over the years due to increasing demand of more value- added products and GST implementation.

Exposure to raw material price volatility

The major raw materials for Kamdhenu's products are scrap, steel ingots and billets, the prices of which 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 ~68% of the total cost of sales for FY21 (PY: 77%), 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 and contributes to significant portion of overall PBILDT, helps the company to manage the said risk.

Elongated operating cycle

The operating cycle of the company moderated to 118 days as on March 31, 2021 (PY: 75 days). The moderation was largely on account of elimination of steel trading which has faster turnaround and lower working capital cycle. The collection period of the company increased to 138 days as on March 31, 2021 (PY: 90 days) while, the company received average credit period of 70 days as on March 31, 2021 (PY: 46 days) from its suppliers. The company had an average inventory holding period of 50 days during FY21 (PY: 30 days). Going forward, any further deterioration in operating cycle and resultant adverse impact of the liquidity position shall remain key monitorable.

Industry Prospects:
CARE expects domestic steel demand to increase from Q2FY22 with phased unlocking of restrictions as more people get vaccinated and return to work in the coming months thereby pushing steel demand. Steel producers are likely to cover up the lost production in the subsequent months and therefore annual crude steel output forecasted at 9-11% growth for FY22. Domestic steel prices continue to remain at a sharp discount to international steel prices which indicates there is room for further price hike.
Liquidity: Adequate
The company has adequate liquidity with expected GCA of Rs. 37.30 crore in FY22 against which it has repayment obligations of Rs. 8.17 crore during FY22. With an overall gearing of 0.52 times as of June 30, 2021, the company has sufficient gearing headroom, to raise additional debt to support any funds requirement. Further, the company had unutilized working capital limits of close to Rs. 48 crore as on August 31, 2021 providing sufficient liquidity buffer to meet any exigencies.
Analytical approach: Standalone
Applicable Criteria
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Steel Industry

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, 2021. 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 has also has presence into the paint business under the brand, Kamdhenu Paints-Colour Dreamz which commenced its operations in August 2008 and its plant is located in Chopanki, Rajasthan. Along with the manufacturing facilities, 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, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	961.96	625.22
PBILDT	44.39	49.75
PAT	1.88	15.09
Overall gearing (times)	0.77	0.59
Interest coverage (times)	3.73	3.66

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	20.00	CARE A2+ (CWD)
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE A- (CWD)
Fund-based - LT-Term Loan	-	-	February 28, 2026	22.00	CARE A- (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+ (CWD)	1)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)	1)CARE A2+ (15-Nov-18)
2	Fund-based - LT-Cash Credit	LT	100.00	CARE A- (CWD)	1)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)	1)CARE A-; Stable (15-Nov-18)
3	Fund-based - LT-Term Loan	LT	22.00	CARE A- (CWD)	1)CARE BBB+ (CWD) (10-Aug-21)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

Sr. No.	Name of the 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 instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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