Kamdhenu Limited

August 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	-	-	Withdrawn
Short-term bank facilities	-	-	Withdrawn
Issuer rating	0.00	CARE A; Stable	Assigned

Details of instruments/facilities in Annexure-1.

CARE Ratings Limited (CARE Ratings) has withdrawn the ratings assigned to the bank facilities of Kamdhenu Limited (Kamdhenu) with immediate effect, as the company has repaid the aforementioned bank facilities in full and there is no amount outstanding against the said facilities as on date.

Rationale and key rating drivers

The Issuer rating assigned to Kamdhenu Limited derives strength from the experienced promoters of the company, the long track record of operations in the steel industry, and its established dealers' and franchise network. The rating also derives strength from the healthy financial risk profile of the company, characterised by nil debt in the company as on March 31, 2023, the healthy profitability margins and debt coverage indicators. The rating also takes comfort from the surplus liquidity available to the tune of ₹31.60 crore as on June 30, 2023, which will be applied towards working capital requirements and the future growth of the company. The rating takes cognizance of the healthy cash generation during FY23 (refers to the period from April 01 to March 31), coming largely from the growing franchise business and the completion of the demerger of the loss-making paints business into a separate entity, Kamdhenu Colour and Coatings Limited (KCCL) (rated 'CARE BBB-; Stable/CARE A3') with effect from April 01, 2022, vide the National Company Law Tribunal (NCLT) order dated June 03, 2022.

These rating strengths are, however, partially offset by Kamdhenu's exposure towards the competitive and cyclic nature of the steel industry, the raw material price volatility, and working capital-intensive nature of operations with an elongated collection period.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in royalty income above ₹140 crore and gross cash accruals (GCA) above ₹70 crore while maintaining the debt protection metrics at the current level on a sustained basis.
- The ability of the company to effectively manage its working capital requirements, leading to an improvement in the operating cycle below 40 days and a liquidity buffer above ₹80 crore on a sustained basis.

Negative factors

- Dilution in the brand revenue with a decline in royalty income below ₹80 crore.
- Profit before interest, lease rentals, depreciation and taxation (PBILDT) per tonne below ₹4,000 per tonne on a sustained basis.
- Overall gearing above 0.50x, leading to a moderation in the financial risk profile of the company.
- Any higher-than-envisaged exposure in KCCL through loans and advances or corporate guarantee (CG), adversely impacting the financial risk profile of the company.

Analytical approach

Standalone, factoring in the exposure towards the group entity, KCCL (erstwhile part of Kamdhenu before the demerger).

Outlook: Stable

CARE Ratings believes that Kamdhenu's business risk profile will continue to remain satisfactory with the steady revenue growth derived from the franchise business model and the healthy demand of the company's products. The financial risk profile of the company is expected to remain comfortable in the near term owing to zero debt vis-à-vis the comfortable net worth position.

Detailed description of the key rating drivers

Key strengths

Experienced promoters and long track record of operations

Satish Kumar Agarwal, B.E. (Mech.), is the founder of Kamdhenu and has an industrial experience of over four decades. He

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

founded Kamdhenu Limited with a single unit in Rajasthan for the manufacturing of high strength deformed (HSD) bars and later introduced the franchisee business model, which helped the company leverage its brand and extend its reach. Sunil Kumar Agarwal, B.E., is also among the founding members of Kamdhenu and has an experience of over three decades in the steel industry. He has been responsible for the company's widespread marketing network. The company is operating for the past two decades and has established its brand over the years.

Established dealer and franchise network
Kamdhenu is one of the strong retail brands in the sales of thermo-mechanically treated (TMT) bars in India. The company operates a franchise network, wherein, individual manufacturers are integrated with the dealer network of Kamdhenu and provide technical expertise for manufacturing TMT bars under the brand name of Kamdhenu (registered trademark under the name of the company). Kamdhenu earns a royalty income on the sale of products under the franchise model, strengthening the profitability of the company and partially safeguarding the margins from the adverse effect of changes in steel cycle.

The company leverages its marketing network to deliver finished goods from the franchise units to the dealers. The widespread dealer network enables the company to reach across the country. As on March 31, 2023, the company had over 80 franchisees in the steel business under the Kamdhenu brand, and a dealer network consisting of more than 8,500 dealers and more than 250 distributors for the steel business.

Improvement in overall financial risk profile during FY23
During FY23, the total operating income (TOI) stood at ₹732.08 crore from the steel business (post demerger of the paints business into a separate entity, KCCL) compared to ₹840.76 crore in FY22, which includes the revenue of the paints business of ₹240.44 crore. The growth in steel business during FY23 was from the healthy demand for the company's products owing to increased construction activities, reflecting in a volume growth from 88,485 tonne in FY22 to 102,080 tonne in FY23, and also on account of the higher sales realisation. Furthermore, the revenue contibution through royalty income from the franchise route has also increased from ₹92.60 crore in FY22 to ₹114.06 crore in FY23. The PBILDT margin, reported at 8.20% in FY23, improved from 6.97% in FY22 owing to the increasing royalty income, which is a high margin business and the demerger or outgo of the less profitable paints business during FY23 w.e.f. April 01, 2022, vide the NCLT order dated June 03, 2022.

The overall gearing significantly improved from 0.48x as on March 31, 2022, to 0.02x as on March 31, 2023, as the company has repaid all its bank facilities and has zero debt outstanding barring miniscule lease liability of ₹3.74 crore as on March 31, 2023. The company also extended a CG for the working capital facilities of KCCL and the adjusted overall gearing stood at 0.49x as on March 31, 2023, however, the same is expected to improve, going forward. Furthermore, the financial risk profile of Kamdhenu is expected to remain comfortable as the company does not have any significant debt-funded capex plans in the near term.

Key weaknesses
Highly competitive and cyclic nature of the industry
The steel bars industry is highly competitive with the presence of various organised and unorganised players, expanding the applications of steel bars and low entry barriers. The margins continue to remain under pressure due to the fragmented nature of the industry. Also, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, geopolitical scenarios, interest rates, and seasonal changes in the demand and supply. Furthermore, the value addition in 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 the volatility in steel prices. However, Kamdhenu's long-standing position in the steel bars industry and its 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 materials for Kamdhenu's products are steel ingots and billets, the prices of which, being a steel commodity, remain volatile. The company sources its raw materials from manufacturers and traders located in various states such as Odisha, Karnataka, Chhattisgarh, and Uttar Pradesh, etc. The raw materials cost constituted around 70-75% of the company's TOI, thus exposing the company to the volatility in the prices of raw materials, which has a bearing on its profitability margins. However, the company has been able to partially pass on the volatility in raw material prices to customers. Furthermore, the franchise model of the company has fixed margins (average royalty income of ₹350-450 per tonne) and contributes to a significant portion of the total PBILDT, which helps the company to manage the said risk.

Working capital-intensive nature of operations with elongated collection period
The operations of the company are working capital-intensive, represented by a high collection period from customers, as it generally offers a credit period of 30 days to 45 days while it gets 15 days from the suppliers under the steel business. The company maintains a stock of close to 15 days to 30 days under the steel business.

The working capital cycle of the company improved to 78 days as on March 31, 2023 (seems high due to the averaging effect, as FY22 included debtors/stock and creditors of paints business) from 88 days as on March 31, 2022. Going forward, the company's ability to effectively manage the working capital requirements will be pertinent from the credit perspective.

Liquidity: Strong

The liquidity is marked by expected cash accruals of around ₹47.52 crore against nil debt repayment and negligible lease obligations of ₹1.12 crore in FY24, thereby leaving a substantial buffer for the future growth of the company. The liquidity is further aided by cash and liquid investments held by the company to the tune of ₹31.60 crore as on June 30, 2023. Furthermore, during Q1FY24, the company has repaid and closed its banking limits in entirety out of the healthy cash accruals; thus, the working capital needs, going forward, will be met through internal accruals only. With nil debt outstanding, the company has sufficient headroom available to raise additional debt for future exigencies, if any.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Steel
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

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 a capacity of 120,000 tonne per annum (TPA) and ingots of 22,500 TPA as on March 31, 2023. Kamdhenu also operates through a franchisee arrangement with steel rolling mills, providing the mills the right to produce and sell TMT bars under the brand name of 'Kamdhenu.'. The company also has two wind power plants with capacities of 1.25 MW and 0.6 MW at Jaisalmer, Rajasthan, as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	840.76	732.08	Not Available
PBILDT	58.62	60.01	
PAT	26.32	41.02	
Overall gearing (times)	0.48	0.02	
Interest coverage (times)	5.60	31.43	

A: Audited UA: Unaudited. Note: The above results are the latest financial results available.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	March 2027	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	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 2023-2024	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
1	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A2+ (28-Nov-22) 2)CARE A2+ (01-Sep-22)	1)CARE A2+ (CW with Developing Implications) (07-Oct-21) 2)CARE A2 (CW with Developing Implications) (10-Aug-21)	1)CARE A2 (CW with Developing Implications) (28-Aug-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A-; Stable (28-Nov-22) 2)CARE A-; Stable (01-Sep-22)	1)CARE A- (CW with Developing Implications) (07-Oct-21) 2)CARE BBB+ (CW with Developing Implications) (10-Aug-21)	1)CARE BBB+ (CW with Developing Implications) (28-Aug-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A-; Stable (28-Nov-22) 2)CARE A-; Stable (01-Sep-22)	1)CARE A- (CW with Developing Implications) (07-Oct-21) 2)CARE BBB+ (CW with Developing Implications) (10-Aug-21)	-
4	Issuer Rating-Issuer Ratings	LT	-	CARE A; Stable	-	-	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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: Lender details

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

Note on the 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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