Kamdhenu Colour and Coatings Limited

July 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	7.50	CARE BBB; Stable	Assigned
Long Term Bank Facilities	25.00 (Enhanced from 20.00)	CARE BBB; Stable	Revised from CARE BBB-; Stable
Long Term / Short Term Bank Facilities	10.00	CARE BBB; Stable / CARE A3+	Revised from CARE BBB-; Stable / CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Kamdhenu Colour and Coatings Limited (KCCL) factors in improvement in the operational and financial performance of the company during FY24 (Audited) (refers to April 01 to March 31) characterised by growth in total operating income, profitability and debt coverage indicators. The ratings continue to derive strength from its experienced promoters with an established track record of operations through flagship entity Kamdhenu Limited and widespread dealers' network of the company. The ratings also take cognizance of the reduction in outside debt levels through funds infusion in KCCL from holding company in the form of Optionally Convertible Redeemable Preference shares (OCRPS). These rating strengths, however, continue to remain constrained by the working capital-intensive nature of operations, fragmented and competitive nature of paints industry, susceptibility of margins to raw material and crude price fluctuation.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations with TOI above Rs.400 crore and PBILDT margins above 8.50% on a sustained basis.
- Improvement in operating cycle with collection period below 90 days on a sustained basis and improvement in liquidity position with buffer of more than 20% in working capital limits to be maintained to support exigencies at all times.

Negative factors

- Decline in scale of operations beyond 20% from existing level with moderation in PBILDT margins and reporting cash losses.
- Further elongation of collection period beyond 170 days and resultant weakening of liquidity position
- Interest coverage below 1.50 times and TD/GCA above 5 times on sustained basis

Analytical approach: Standalone factoring need based support from promoters.

Outlook: Stable

CARE Ratings believes that KCCL's business risk profile will continue to remain satisfactory with the steady revenue growth derived from improving sales prices in tandem with increasing proportion of high value products in product mix of the company.

Detailed description of the key rating drivers:

Key strengths

Growth in scale of operations and improvement in profitability margins during FY24

The company has reported improvement in operational and financial performance during FY24 characterised by growth in total operating income and improvement in profitability margins. The company reported 16.44% growth in TOI, rising from Rs. 250.51 crores in FY23 to Rs. 291.71 crores in FY24. The growth was largely on account of higher sales realization, which has increased from (Rs/MT) 82,253 in FY23 to (Rs/MT) 91,874 in FY24. Additionally, the company reported volume growth, with sales of 31,751

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

MT in FY24 as against 30,393 MT in FY23. The company also reported substantial improvement in PBILDT margins from 0.26% in FY23 to 8.19% in FY24 largely driven by better realizations and focus on high-value products along with reduction in the cost by raw material consumed.

Satisfactory capital structure with improved coverage indicators

The capital structure of the company remained at satisfactory level with overall gearing of 0.79x as on March 31, 2024, maintained at similar level of 0.75x as on March 31, 2023. The company reported improvement in coverage indicators with interest coverage and Total Debt/GCA improving to 8.03x and 4.27x respectively during FY24 from 0.11x and 12.10x respectively in FY23
During FY24, the holding company Kamdhenu Ventures Limited infused Rs. 57.76 crores in KCCL in form of 0.01% Optionally Convertible Redeemable Preference shares (OCRPS). The aforesaid funds were applied towards pre-payment of term debt in entirety of ~Rs. 11.7 crores and reduction of working capital limits (repaid and closed the outstanding limits pertaining to Rs. 40 crores FB limit and Rs. 18 crores NFB limit from State Bank of India).

Experienced promoters and long track record of operations of Kamdhenu Limited and established brand name

KCCL and Kamdhenu Limited, both the entities are managed by common promoters having long established industrial experience into steel manufacturing and into paints manufacturing. Mr. Sunil Kumar Agarwal, B.E. is also among the founding members of Kamdhenu Ltd and also serves as the Chairman of KCCL and has an experience of over 3 decades in steel industry. He has been responsible for company's widespread marketing network. Mr Saurabh Agarwal has been associated with the company since 1998 and has expertise in plant operations and shall also serve as Managing Director of KCCL. Both the entities shall continue sharing common brand name Kamdhenu.

Widespread dealers' network across different regions

KCCL has its manufacturing facility located at Chopanki, Rajasthan through which it is presently catering mainly to North (~42% revenue) and East (~34%) regions. The sales in the decorative segment are mostly retail, made through dealers. Further, the company has wide distribution network of 4,386 dealers, more than 34 sales depots spread across 5 regional distribution centres. Approximately 79% revenue comes from the Tier-II cities of different regions followed by 12% from Tier-III and 9% from Tier-I cities. The current dealer proportion in South, West and Centre region is higher than the revenue contribution of these regions, providing scope for significant volume expansion in the future on existing investments.

Key weaknesses

Intensely competitive and fragmented industry

The Indian paints industry is characterised by small and regional players constituting the unorganised segment account for low market share, whereas large and organised players account for majority market share with top 4 players, Asian Paints, Berger Paints, Kansai Nerolac and Akzo Nobel (Dulux). With the new entrants of large size players like Grasim Industries (Birla Opus) and JSW group, KCCL remains exposed to significant competition from both the organised and unorganised sector players for its various product segments.

Susceptibility of operating margin to raw material and crude price fluctuation

Raw materials are crucial to the manufacturing of paints with cost of raw materials consumed constituting a major cost 55-65% of the total operating income. KCCL uses various raw materials with major categories being solvents, pigments, titanium dioxide, acids and chemicals, resins and additives. A significant proportion of the raw materials are derivatives of crude oil. Changes in crude prices affect the decorative paints business more than any other as it is a raw material intensive industry. With the rising raw material prices in paint business, company has also increased prices to be able to partially pass on the raw material price increase. However, competition from the organized and unorganized players does limit pricing as KCCL is relatively a smaller player and has low bargain power. Hence, the profitability of the company is susceptible to raw material price fluctuation risk.

Working capital intensive operations

Working capital cycle of the company is elongated with high inventory requirements due to large variety of paint products offered. The company generally has credit terms of 60 to 90 days with the customers and suppliers for outsourcing and manufacturing business both; however, payment gets extended leading into elongated collection and payment days. Average inventory holding stood above 100 days while collection and creditors days stood at 153 days and 90 days respectively as on March 31, 2024 compared to 152 days and 98 days respectively as on March 31, 2023. Going forward, company's ability to effectively manage its working capital cycle shall be critical from credit's perspective.

Liquidity: Adequate

Liquidity position is marked adequate with sufficient buffer available between expected GCA of ~Rs. 19.71 crores in FY25 against nil long-term debt obligations (apart from nominal lease liability). With a gearing of 0.79 times as of March 31, 2024, the company also has some headroom to raise additional debt to meet any future exigencies. Its unutilized bank lines of Rs. 10 crores as on May 31, 2024 also provides cushion for any incremental WC requirement. The company has unencumbered cash and cash equivalents of Rs. 4.79 crore as on May 31, 2024.

Applicable criteria

Definition of Default
Financial Ratios – Non-financial Sector
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Paints

Kamdhenu Ltd started paint business in year 2007-2008 and set up own manufacturing unit at Chopanki, Rajasthan with installed capacity of 36,000 Kilo litres per annum as on March 31, 2024 for decorative paints under the brand name 'Kamdhenu / Colour Dreamz' with 4,386 dealers' network and 34 sales depots across India. Paints business was demerged into Kamdhenu Colour and Coatings Limited vide NCLT order dated June 03, 2022, wherein the scheme of arrangement was approved. Major paint revenue comes from North and East region. Products of the company are promoted by the brand ambassador Ms. Preity Zinta since 2021.

Brief Financials (₹ crore)	March 31, 2022 (UA)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	241.45	250.51	291.71
PBILDT	3.22	0.66	23.90
PAT	-12.70	-10.33	14.17
Overall gearing (times)	0.66	0.75	0.79
Interest coverage (times)	0.50	0.11	8.03

A: Audited Note: 'the above results are latest financial results available'

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: 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		-	-	-	25.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	31/03/2031	7.50	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	10.00	CARE BBB; Stable / CARE A3+

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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (05-Dec-23)	1)CARE BBB-; Stable (28-Nov-22)	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	10.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (05-Dec-23)	1)CARE BBB-; Stable / CARE A3 (28-Nov-22)	-
3	Fund-based - LT-Term Loan	LT	7.50	CARE BBB; Stable				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of 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 - LT/ 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:
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