Kamdhenu Limited

July 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE A; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of issuer rating assigned to Kamdhenu Limited continue to derive strength from its experienced promoters, the long track record of operations in the steel industry and its established dealers' and franchise network. The rating also continues to derive strength from the company's healthy financial risk profile characterised by nil debt in the company as on March 31, 2024, healthy profitability margins and debt coverage indicators. The rating also takes comfort from surplus liquidity available to the tune of ₹149.86 crore as on May 31, 2024, which will be applied towards working capital requirements and its future growth. The rating takes cognisance of healthy cash generation in FY24 (Abridged) (refers to April 01 to March 31), coming largely from the growing franchise business. However, these rating strengths continue to remain constrained by Kamdhenu's exposure towards competitive and cyclic nature of the steel industry, raw material price volatility, and working capital-intensive operations. The rating also takes note of reducing exposure towards Kamdhenu Colour and Coatings Limited (KCCL) in the form of corporate guarantee, as KCCL repaid and closed the outstanding limits pertaining to ₹40 crore fund based (FB) limit and ₹18 crore non fund-based (NFB) limit from State Bank of India. As on March 31, 2024, there is nil exposure towards KCCL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growing royalty income above ₹140 crore and gross cash accruals (GCA) above ₹70 crore, while maintaining debt protection metrics at the current level on a sustained basis.

Negative factors

- Diluting 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 moderating financial risk profile of the company.

Analytical approach: Standalone

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 company's financial risk profile is expected to remain comfortable in the near term owing to zero debt against comfortable net worth position.

Detailed description of 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 founded Kamdhenu Limited with a single unit in Rajasthan for manufacturing 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 last two decades and has established its brand over the years.

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

Established dealer and franchise network

Kamdhenu is one of the strong retail brands in sales of thermo-mechanically treated (TMT) bars in India. The company operates a franchise network, where individual manufacturers are integrated with Kamdhenu's dealer network 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 sale of products under the franchise model, strengthening the company's profitability and partially safeguarding margins from adverse effect of changes in steel cycle.

The company leverages its marketing network to deliver finished goods from franchise units to dealers. The widespread dealer network enables the company to reach across the country. As on March 31, 2024, 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.

Satisfactory operational performance with improvement in PAT margins in FY24 (Abridged)

In FY24 (Abridged), the company reported total operating income at ₹724.71 crore from steel business closely aligns to TOI of ₹732.08 crore in FY23. Marginal moderation was largely considering sales realisation of TMT bars reducing from ₹57,771 in FY23 to ₹51,947 in FY24 (Abridged), though volumes reported were higher. Indian steel prices remained under pressure owing to higher imports, range-bound exports and increased production. However, the company was able to achieve the similar TOI in-spite of fallen prices considering increased sales volumes and increased contribution from royalty income. PBILDT margins maintained at similar level of 8.18% in FY24 (Abridged), as against 8.20% in FY23, however profit after tax (PAT) margins improved from 5.60% in FY23 to 6.92% in FY24 (Abridged) considering lower interest cost in the year and further due to gain on valuation of investments measured at FVTPL of ₹5.34 crore, and provision of expected credit loss written back of ₹4.36 crore.

Working capital-intensive operations despite improving in the collection period

The company's operations are working capital-intensive, represented by high though improved collection period from customers, as it generally offers a credit period of 30 days to 45 days while it gets 15 days from suppliers under the steel business. The company maintains a stock of close to 15 days to 30 days under the steel business.
The company's working capital cycle improved to 37 days as on March 31, 2024, from 78 days as on March 31, 2023, as the collection period improved from 82 days in FY23 to 41 days in FY24 (abridged), reflecting better recovery from distributors. Going forward, the company's ability to effectively manage working capital requirements will be pertinent from the credit perspective.

Key weaknesses

Highly competitive and cyclic industry

The steel bars industry is highly competitive with the presence of organised and unorganised players, expanding applications of steel bars and low entry barriers. The margins continue to remain under pressure due to the fragmented nature of the industry. The steel industry is sensitive to shifting business cycles, including changes in the general economy, geopolitical scenarios, interest rates, and seasonal changes in the demand and supply. Value addition in steel construction materials such as TMT bars, MS angles and channels, among others, is also low, resulting in low product differentiation in the market. Producers of steel construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to steel price volatility. However, Kamdhenu's long-standing position in the steel bars industry and its long-term association with reputed customers have enabled it withstand 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, prices of which as a steel commodity, remain volatile. The company sources its raw materials from manufacturers and traders across Odisha, Karnataka, Chhattisgarh, and Uttar Pradesh, among others. Raw materials cost constituted around 70-75% of the company's TOI, exposing it to volatility in raw material prices, which has a bearing on its profitability margins. However, the company has been able to partially pass on raw material price volatility to customers. The company's franchise model 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 manage this risk.

Liquidity: Strong

Liquidity is marked by expected cash accruals of around ₹62.62 crore against nil debt repayment and negligible lease obligations of ₹1.51 crore in FY25, leaving a substantial buffer for future growth. Liquidity is further aided by cash and liquid investments held by the company to the tune of ₹149.86 crore as on May 31, 2024. In Q1FY24, the company repaid and closed its banking limits in entirety of the healthy cash accruals; thus, working capital needs will be met through internal accruals only, going forward. With nil debt outstanding, the company has sufficient headroom available to raise additional debt for future exigencies.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Financial Ratios - Financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Iron & Steel

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Iron & steel products

Kamdhenu was incorporated in September 1994 and started commercial operations in October 1995. The company has its plant in Bhiwadi, Rajasthan, for manufacturing TMT bars with a capacity of 120,000 tonne per annum (TPA) and ingots of 22,500 TPA as on March 31, 2024. Kamdhenu also operates through a franchisee arrangement with steel rolling mills, providing 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, 2024.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (Abridged)
Total operating income	840.76	732.08	724.71
PBILDT	58.62	60.01	59.25
PAT	26.32	41.02	50.13
Overall gearing (times)	0.48	0.02	0.01
Interest coverage (times)	5.60	31.43	132.41

A: Audited; Note: These are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE A; Stable

Annexure-2: Rating history for 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	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (02-Aug-23)	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)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (02-Aug-23)	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)
3	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (02-Aug-23)	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)

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
								(10-Aug-21)
4	Issuer Rating-Issuer Ratings	LT	0.00	CARE A; Stable	-	1)CARE A; Stable (02-Aug-23)	-	-

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated: Not applicable

Annexure-5: Lender details

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

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

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About us:
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