Kedia Carbon Private Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	32.37 (Reduced from 33.52)	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	5.30	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Kedia Carbon Private Limited (KCPL) continue to derive comfort the experience of promoters with long track record of operations in the industry and established position in Coal Tar Pitch (CTP) industry in Odisha, strategic location of the plant in terms of proximity to sourcing of raw materials and sale of CTP to clients with promoter group's own logistics network, increase in scale of operations and improved profitability in FY24 (refers to April 01 to March 31) and improvement in capital structure and satisfactory debt protection metrics. However, ratings strengths are constrained by client concentration risk leading to low bargaining power despite reputed and established clientele, profitability susceptible to raw material price volatility, working capital intensive business and susceptible to cyclicality in the steel and aluminium industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Increasing scale of operation (over ₹500 crore) on a sustained basis, while sustaining operating margins above 5%.

Negative Factors

- Deteriorating overall gearing (including vendor financing facility) (over 1.00x) on sustained basis.
- Declining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins below 3.50% on sustained basis.
- Regulatory changes having potential to materially impact the company's performance.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the company's ability to sustain its operational performance considering regular order flow from its reputed customers.

Detailed description of key rating drivers:

Key strengths

Experience of promoters with long track record of operations in industry and established position in CTP industry in Odisha

The promoter, Mahesh Kedia, has experience of almost three decades in the coal tar pitch industry and manages the company's day-today operations. The promoter family has been involved in the same line of business since 1942. The promoter family has another entity, B.S. Tar Private Limited, which is involved in the same line of business in West Bengal (managed by Santosh Kedia, father of Mahesh Kedia). The management's extensive experience helped the company establish long-term relationships with customers and suppliers ensuring repeat orders. The company set up three melter plants, which gives them flexibility to either source coal tar from steel plants and use it as raw material or use imported pitch depending on price differential, which can be blended with pitch being manufacturing by the company.

Strategic location of the plant in terms of proximity to sourcing of raw materials and sale of CTP to clients with promoter group's own logistics network

KCPL's manufacturing facility is in Rourkela, Odisha, which is close to steel plants such as SAIL and Tata Steel, who are its major raw material suppliers and close to aluminium plants of customers such as Vedanta and NALCO. Proximity with supplier and customers and own logistic network gives it a competitive edge in terms of pricing compared to its competitors in the vicinity.

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

Increase in scale of operations and improved profitability in FY24

Income from operations grew at ~5% to ₹305.86 crore in FY24 against ₹291.71 crore in FY23 considering y-o-y increase of ~34% in sales volumes of CTP despite dip in sales realisations per tonne. Profitability margins marked by PBILDT margin improved from 4.82% in FY23 to 6.30% in FY24. Improvement is considering higher realisations earned on blended CTP.

In 5MFY25, the company has achieved a total operating income (TOI) of ₹116.49 crore.

Improvement in capital structure and satisfactory debt protection metrics

The capital structure of KCPL improved and continued to remain comfortable marked by overall gearing of 0.28x as on March 31, 2024 as against 0.64x as on March 31, 2023. The improvement is primarily considering lower utilisation of working capital borrowings and accretion of profits to networth.

With comfortable debt position and improved profitability, the company's debt coverage metrics also remained satisfactory. The interest coverage ratio and Total Debt/Gross cash accruals (GCA) has improved from 5.91x and 3.53x respectively in FY23 to 6.86x and 1.38x respectively in FY24.

Going forward, the capital structure and debt coverage indicators are expected to remain comfortable as the management does not plan to undertake debt-funded capital expenditure in the medium term.

Key weaknesses

Client concentration risk leading to low bargaining power despite reputed and established clientele

The company supplies to reputed players in aluminum, graphite electrode and carbon black manufacturing companies. The top eight customers of the company constitute ~94% of the TOI in FY24 (PY:96%). Of the total sales, CTP sales comprise ~64% of total sales, which is mainly concentrated with two customers – Vedanta (~76% of CTP sales) and NALCO (~19% of CTP sales). The company enjoys ancillary unit status from NALCO (eligible for 25% of the total order given by NALCO at L1 rate, which can fulfil 45% of KCPL's installed capacity) since 2011. On the whole, key customer contributes ~45-50% of total sales exposing the company to customer concentration risk. It reduces the company's bargaining power against its customers. However, risk is mitigated to some extent considering repeated orders from reputed and established clientele, with whom, the company has a long-standing relationship.

Industries have limited number of players due to high entry barriers. Presence of limited players in CTP manufacturing, especially in Odisha, offsets this risk to a certain extent.

Profitability susceptible to raw material price volatility

Raw material cost constituted ~80-90% of total cost of sales. Raw material for CTP is primarily derived as by-product (coal tar) from steel manufacturing industries. Given that the raw-material cost is the major cost driver and as prices exhibit volatility and cyclicality, the company's profitability is highly susceptible to raw-material price volatility. However, the company has been able to pass increase/decrease in raw material prices to its customers leading to stable operating margins. The company takes short-term orders due to fluctuation in raw material prices. The order from Vedanta is received quarterly and orders from NALCO is signed for six months but the rate of supply is decided monthly.

Working capital intensive business

Raw material cost is a significant portion of total cost of sales. There is no credit period offered for purchase of raw materials, which has to be financed either by bank borrowings or internal cash accruals, making operations working capital intensive.

Susceptible to cyclicality in steel and aluminium industry

The key end-user industry for CTP is aluminium and graphite. Improved demand conditions in the domestic market and higher realisations are expected to help aluminium producers ramp-up domestic output. Uptick in steel production has led to a pick-up in graphite electrodes demand. Growing demand from the aluminium and graphite industry is expected to translate into improved demand potential for KCPL. However, KCPL remains exposed to cyclical nature of end-user industries.

Liquidity: Adequate

The company's liquidity profile is adequate with GCA of ₹12.34 crore against debt repayment obligations of ₹1.28 crore and positive cash flow from operations amounting to ₹34.51 crore in FY24. The current ratio improved and stood at 2.74x as on March 31, 2024, against 2.21x as on March 31, 2023. The company has a fund-based limit of ₹30 crore and the average maximum utilisation of which stood at ~35% for 12-months ending August 2024. The company had unencumbered cash & bank balance at ₹1.86 crore and investment in mutual fund amounting to ₹1.70 crore as on March 31, 2024.

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies

[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)

About the firm and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & petrochemicals	Commodity chemicals

KCPL is engaged in producing carbon chemical products. CTP is the main product constituting ~64% of total income in FY24. CTP finds its application as a binder for manufacturing aluminium anode and graphite electrode. Aluminium anodes are used in producing primary aluminium, while graphite electrodes are used in producing steel through the Electrode Arc Furnace (EAF) route. KCPL is the leading producer of CTP in Orissa and among the top manufacturers in India.
KCPL has a plant in Balanda, Sundargarh, Orissa, having capacity for processing of Crude Coal tar of 48,000 tonnes per annum and melter capacity of 36,000 tonnes per annum mainly to blend imported lower grade CTP with higher grade domestic CTP. The promoter, Mahesh Kedia, has experience of almost three decades in the CTP industry and manages the company's day-to-day operations. The promoter family has been involved in the same line of business since 1942. The promoter family has another entity, B.S. Tar Private Limited, which is involved in same line of business in West Bengal (managed by Santosh Kedia, father of Mahesh Kedia).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	5MFY25 (UA)
Total operating income	291.71	305.86	116.48
PBILDT	14.06	19.26	NA
PAT	7.79	11.14	NA
Overall gearing (times)	0.64	0.28	NA
Interest coverage (times)	5.91	6.86	NA

A: Audited, UA: Unaudited, NA: Not available, Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork Ratings has conducted the review based on best available information and has classified KCPL as 'Not Cooperating' vide its press release dated April 16, 2024. The reasons provided by Brickwork Ratings are on non-submission of requisite information required to conduct the rating exercise and non-submission of No Default Statements (NDS).

Any other information: Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd: Not applicable
Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	November 2026	2.37	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	0.30	CARE A3+

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	5.00	CARE A3+	-	1)CARE A3+ (04-Jan-24)	1)CARE A3 (24-Mar-23)	-
2	Fund-based - LT-Term Loan	LT	2.37	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Jan-24)	1)CARE BBB; Stable (24-Mar-23)	-
3	Non-fund-based - ST-Forward Contract	ST	0.30	CARE A3+	-	1)CARE A3+ (04-Jan-24)	1)CARE A3 (24-Mar-23)	-
4	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Jan-24)	1)CARE BBB; Stable (24-Mar-23)	-

LT: Long term; ST: Short term

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

Annexure 4: Complexity level of 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
4	Non-fund-based - ST-Forward Contract	Simple

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.

Contact us

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About us:

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