

Kantipudi Steels Private Limited

February 17, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	145.90 (Reduced from 150.91)	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating of bank facilities of Kantipudi Steels Private Limited (KSPL) considers the experience and resourcefulness of promoters, favourable location of operations, established relationship with customers and suppliers, and presence across geographies. Rating also considers stable total operating income (TOI) and improved profitability in FY24 (A) and 9MFY25 (UA) [FY refers to April 01 to March 31], comfortable operating cycle, adequate liquidity, and stable industry outlook. The rating strengths are partially offset by thin profitability margins owing to trading nature of business, leveraged capital structure, profit margins susceptible to raw material cost volatility induced by climatic and environmental factors and presence in highly competitive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The company's ability to improve its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 3.5% while achieving a TOI of more than ₹1,200 crore on a continuous basis.
- Overall gearing improving to below 1.5x on a sustained basis.

Negative factors

- Deterioration in the overall gearing beyond 4x.
- Operating cycle elongating beyond 60 days, in future.
- Significant decline in scale of operation or PBILDT margin by more than over 30% year-on-year (y-o-y).

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook on ratings of KSPL reflects expectation to sustain its stable financial risk profile and maintaining sustained profit margins.

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful promoters and long proven track record of operations

Mr. K. Sarvarayudu, with 40-year-experience, is the key person in establishing the "Kantipudi Group" and looks after KSPL's overall operations. Mr. Ch. V. V. Satyanarayana Murthy, Director of Kantipudi Steels Private Limited, looks after the daily managerial and administrative activities in the company. Mr M. Jagajanna Rao, son-in-law of Mr. K. Sarvarayudu, is a postgraduate in Master of Business Administration and a gold medallist in the academics. He takes care of financial, administrative, and logistics departments as a key managerial person.

Established network of sub dealers and diversified customer mix

KSPL is in steel trading, which procures material from manufacturers and distributes it to the sub agents. KSPL is one of the leading steel trading companies in the coastal districts of Andhra Pradesh. The company operates through a network of sub dealers and direct selling associates. The company has 10 customer/dealer touch points. Over the years, the company has been able to establish good relationship with both its suppliers and customers. The company has diversified customer base with large number of customers who pick up small-value orders from the company on requirement basis. The customer mix of the company is diversified with the top 10 customers contributing 19% of the TOI of the company in FY24. For 9MFY25, the company is diversified with the top 10 customers contributing to ~23% of the TOI.

Stable TOI and profitability in FY24 and 9MYF25

The TOI of the company moderated slightly but remained stable at ₹955.54 crore in FY24 compared to ₹979.90 crore in FY23 with y-o-y decrease of ~2.5% despite increase in sales volume majorly considering fall in steel prices. The company is the sole distributor to Jindal Steel Private limited in Andhra Pradesh, which contributes ~32% of their revenue. Despite decrease in

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

turnover, profitability levels witnessed improvement led by higher sales volume in FY24. PBILDT improved by 11.49% to ₹20.67 crore. Despite higher interest due to increased reliance on bank borrowings, profit after tax (PAT) levels moderated slightly by 2.64% to ₹7.01 crore. For 9MFY24, the company booked TOI of ₹575.64 crore, which is ~61% of revenue projected for FY25 with a PAT of ~₹4.95 crore.

Satisfactory operating cycle

KSPL's operating cycle increased slightly, but remained satisfactory at 53 days in FY24 (45 days in FY23). KSPL, with a view to tackle market competition, has streamlined the credit period they extend to the customers. The total collection period increased slightly to 44 days in FY24 (FY23: 36 days). Average working capital utilisation of KSPL remained moderate at ~80% for the last 12 months ended December 2024.

Stable outlook for steel industry

India's steel industry is witnessing significant growth, fuelled by robust domestic demand and substantial government investments in infrastructure and housing. In FY23-24, crude steel production increased by 13.2% to 144.04 million tonnes, while finished steel consumption rose by 13.6% to 136.25 million tonnes. Despite this growth, margins for domestic steelmakers are under pressure due to volatile commodity and energy costs, and a surge in low-cost imports, particularly from China, has turned India into a net importer of steel. In Q2FY25, crude steel production grew by 2.7% YoY to 36.23 million tonnes, with consumption growth of 11.6% YoY and 4.2% quarter-on-quarter (QoQ) to 37.09 million tonnes. Imports in Q2 jumped by 42.6% YoY to 3.18 million tonnes, while exports fell by 29.3% YoY to 1.27 million tonnes. The 2024 budget has earmarked ₹11.11 lakh crore for national infrastructure projects and ₹10 lakh crore for housing projects under PM Awas Yojana, which is expected to boost steel demand. The removal of customs duties on ferronickel and critical minerals, and the continued exemption of ferrous scrap from customs duties, will enhance cost-effectiveness. Overall, the outlook for India's steel industry remains positive, with strong demand expected to persist.

Key weaknesses

Thin profitability margins

KSPL is in steel trading, which procures material from manufacturers and distributes it to the sub agents. One of the inherent natures of trading business is lower profitability margins as the trader does not add differentiation factor to the product. Therefore, KSPL is more into volume games where the margins directly depend on the quantity of sales made by the company. Profitability marked by PBILDT margin improved to 2.16% in FY24 compared to 1.89% in FY23 considering reduction in cost per MT and the company has started catering per the requirements of its customers by providing customised sizes of coils, which resulted in improved profitability. PAT margin remained at stable level at 0.73% in FY24.

Leveraged capital structure and moderate debt coverage indicators

The capital structure of the company marked by overall gearing moderated slightly and remained leveraged at 3.40x as on March 31, 2024 (PYE: 3.32x), due to increase in working capital borrowings. KSPL's reliance on working capital borrowings increased in FY24 considering change in procurement terms from its supplier, Rashtriya Ispat Nigam Limited. Till FY23, the company used to procure raw material monthly, which was revised to bi-monthly resulting in increased requirement of working capital. Other debt coverage indicators, interest coverage ratio deteriorated to 1.97x (PY: 2.29x) considering increase in interest expense due to higher utilisation in FY24. Despite deterioration, the same remained comfortable.

Presence in cyclical, fragmented, government regulated, and competitive nature of steel trading business

KSPL operates in a highly competitive industry, fortunes of which depend on end-use industries, such as construction and government spending. Demand for steel products is highly correlated to the trend in these sectors. These key user industries in turn depend on macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, among others, in the economies in which they sell their products.

Susceptibility to price fluctuation of steel products

Prices of steel products are volatile in nature and are driven by the demand-supply scenario prevailing on a particular day and by the global prices. The company is experiencing high fluctuation in the steel prices, which is affecting the profitability margins of the company, which are on a lower side due to the trading nature of operations. However, the price fluctuation risk is mitigated to certain extent as the company has back-to-back order arrangement, where the company places order with suppliers upon receipt of order from its customers.

Liquidity: Adequate

Adequate liquidity of KSPL is characterised by generation of healthy cash accruals of ₹8.15 crore in FY24 against a gross repayment obligation of ₹5.93 crore in FY25. The average working capital utilisation remains at ~80% for past 12 months ended December 2024. The repayment for GECL term loan availed in FY22 started in January 2024. This apart, promoters have a track record of supporting the entity as and when required by infusion of unsecured loans.

Assumptions/Covenants: Not applicable

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](#)

[Financial Ratios – Non financial Sector](#)

[Iron & Steel](#)

[Wholesale Trading](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services & supplies	Trading & distributors

KSPL is a part of the "Kantipudi Group", which operates in trading steel products such as steel rods and bars. KSPL started as a small steel trading firm in 1986, which was later converted to Private Limited Company in 2005. The company is engaged into wholesale distributors of steel products such as steel rods, bars, and supply primarily to the retail shops. The company majority operates in three districts of Andhra Pradesh, Vishakhapatnam, East & west Godavari in AP, which contributes mostly 80% of the revenue. KSPL mainly deals in steel products of Rashtriya Ispat Nigam Limited, Maa Mahamaya Industries Limited, and Jindal Steel Products Limited. KSPL is also the sole distributor for "Jindal Panther" products for Andhra Pradesh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	979.90	955.54	575.64
PBILDT	18.54	20.67	14.56
PAT	7.20	7.01	4.95
Overall gearing (times)	3.32	3.40	NA
Interest coverage (times)	2.29	1.97	1.97

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

Status of non-cooperation with previous CRA: Brickwork has placed the rating for bank facilities of Kantipudi Steels Private Limited under 'BWR B-; Stable/ BWR A4; INC' vide PR dated April 19, 2024, due to the absence of requisite information from the company.

Any other information: 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	-	-	-	-	69.00	CARE BBB-; Stable
Fund-based - LT-Electronic Dealer Financing Scheme	-	-	-	-	60.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	January 2032	16.90	CARE BBB-; 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	Fund-based - LT-Term Loan	LT	16.90	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Mar-24) 2)CARE BB+; Stable (07-Apr-23)	1)CARE BB+; Stable (15-Jul-22)	1)CARE BB+; Stable (23-Mar-22)
2	Fund-based - LT-Cash Credit	LT	69.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Mar-24) 2)CARE BB+; Stable (07-Apr-23)	1)CARE BB+; Stable (15-Jul-22)	1)CARE BB+; Stable (23-Mar-22)
3	Fund-based - LT-Electronic Dealer Financing Scheme	LT	60.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Mar-24) 2)CARE BB+; Stable (07-Apr-23)	1)CARE BB+; Stable (15-Jul-22)	1)CARE BB+; Stable (23-Mar-22)
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	-	-	-	-	-	1)Withdrawn (23-Mar-22)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Electronic Dealer Financing Scheme	Simple
3	Fund-based - LT-Term Loan	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

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Karthik Raj K Director CARE Ratings Limited Phone: +91-80-4662 6666 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 912267543404 E-mail: saikat.roy@careedge.in	Y Tejeshwar Reddy Assistant Director CARE Ratings Limited Phone: +91 40 40 102030 E-mail: Tejeshwar.Reddy@careedge.in
	Sachin Rathi Rating Analyst CARE Ratings Limited E-mail: Sachin.rathi@careedge.in

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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For detailed Rationale Report and subscription information,
please visit www.careedge.in**