

Kundan Castings Private Limited (Revised)

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.21	CARE BB+; Stable	Assigned
Short Term Bank Facilities	3.00	CARE A4+	Assigned

Detailed rationale and key rating drivers

The ratings are based on combined financials of Shree Radhey Radhey Ispat Private Limited (SRR IPL), Kundan Castings Private Limited (KCPL), Sigma Metal and Power Private Limited (SMPPL) and Sigma Castings Limited (SCL) since all these are part of Sigma Group and have operational and financial linkages, common promoters and common management personnel.

The ratings assigned to the bank facilities of Kundan Castings Private Limited (KCPL) part of Sigma group factors in improvement in scale of operations of the group during FY22 (refer to the period April 01 to March 31), moderate financial risk profile and moderate operating cycle of the group. The ratings continue to derive strength from its experienced promoters in steel industry and its long track record of operations. The ratings take cognizance of newly launched brand of TMT bars Sigma Griplock by the group in December 2022 and discontinuation of association with 'Kamdhenu' for sale of its products. However, the rating continues to remain constrained by thin profitability margins of the group, exposure to volatility in raw material prices and highly competitive and inherent cyclicality in the steel industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained growth in TOI along with improvement in PBILDT margins above 3% and PAT margins above 1.5%.
- Improvement in total debt to GCA below 7.50x on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decrease in TOI below Rs.400 crore along with PBILDT margins below 1% on a sustainable basis.
- Deterioration in capital structure with overall gearing ratio deteriorating to more than 1.50x on a sustained basis.

Detailed description of the key rating drivers

Key rating weaknesses

Thin low profitability margins

Although, the group has reported significant growth in total operating income during FY22, however the profitability margins moderated to 1.70% in FY22 from 2.88% in FY21 and continued to remain at low levels. The same moderated as the company did significant trading activities which have low value addition and hence offer very thin margin which overall accounted for thin PBILDT margins. Also, group paid royalty fee to Kamdhenu for using its brand name for sales which further impacted their margins. However, going forward since the group has launched its own brand for TMT bars, they won't be required to pay any royalty fee and they can also expand geographical reach in the short & medium term which is expected to improve their profitability going forward.

Susceptibility to volatility in raw material prices

Prices of major raw materials for the group such as steel ingots and billets are inherently volatile in nature. The group purchases most of its raw materials from local scrap dealers. The group operates with an established brand name enabling it to pass on the volatility in raw material prices to its customer to a certain extent according to the market conditions. However, owing to highly competitive nature of the industry, the group cannot pass on the full impact of the fluctuation in raw material prices to its customers, which has a bearing on the margins.

Highly competitive and cyclic nature of industry

The steel bars industry is highly competitive due to presence of various organized and unorganized players and expanding applications of various types of steel bars. Although, over the years the industry has become more organized with the share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry. Also, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes

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

in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. Furthermore, the value addition in the 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 volatility in the steel prices.

Key rating strengths

Moderate financial risk profile

The financial risk profile of the group is moderate as marked by TOI of Rs. 857.60 crore in FY22 which has grown significantly from Rs.570.68 crore in FY21, reflecting a growth of ~50.30% over previous year. The capital structure of the group is moderate as reflected by overall gearing ratio of 0.96x as on March 31, 2022, and has remained range bound between 0.96x to 1.01x over the past 3 years. Further The interest coverage ratio also stood moderate at 1.33x as on March 31, 2022.

Satisfactory operating cycle

The operating cycle of the group remained at satisfactory level of 25 days during FY22 against 38 days in FY21. The collection period of the group improved to 16 days in FY22 from 38 days in FY21 due to subdued effect of COVID-19 which improved business prospects. The inventory days however moderated to 26 days in FY22 from 25 days in FY21.

Experienced promoters & long track record of operations

The affairs of the group are managed by the directors – Mr Navin Jain, Mr Navneet Jain & Mr Vijay Kumar Jakhodia. Mr Navin Jain has a post graduate degree in commerce along with a bachelor's degree in law & has over two decades of experience in the iron & steel industry. He looks after the overall management of the operations. He is supported by his son, Mr Navneet Jain, who looks after product branding. Marketing operations of the group are managed by Mr Vijay Kumar Jakhodia who has over 30 years of experience in the industry & was in the same line of business before joining the group. Long track record of operations provides established market presence to the group.

Liquidity: Stretched

The liquidity position of the group remains stretched as marked by repayment obligation of Rs. 8.16 crores in FY23 against the projected GCA of ~Rs.10.10 crore. The working capital utilization of the group also remains high at ~90% for all three entities combined for 12 months between September 21 till August 22.

Analytical approach: Combined. The operational and financial risk profile of Shree Radhey Radhey Ispat Private Limited (SRR IPL) has been combined with Kundan Castings Private Limited (KCPL), Sigma Metal and Power Private Limited (SMPPL) and Sigma Castings Limited (SCL) since all the entities have operational and financial linkages, common promoter and common management personnel.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Steel](#)

[Wholesale Trading](#)

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[Consolidation](#)

About the Group

Uttar Pradesh Based Sigma group has following group companies:

Shree Radhey Radhey Ispat Pvt Ltd (SRR IPL): Shree Radhey Radhey Ispat Pvt Ltd incorporated in May 10, 2002, was acquired by Sigma group in 2007 and was a franchisee partner of Kamdhenu Limited (rated CARE A-; Stable/ A2+), engaged in manufacturing & selling of TMT (Thermo Mechanical Treatment) reinforcing bars across a range of diameters from 8 mm to 32 mm with installed annual capacity of 1,20,000 MT till November 30, 2022. From December 2022 the company has started manufacturing its TMT bars under the name of Sigma GripLock+ TMT bars.

Kundan Castings Private Limited (KCPL): The company is engaged in the manufacturing of M.S. Ingots with a total installed capacity of 20,000 metric tonne per annum for its rolling mill as on October 31, 2022. The company majorly sells its MS Ingots to SRR IPL. Further, the company is also engaged in the business of manufacturing and trading of edible oil, import license & machinery parts and fabricated sheets. The company is also involved in trading of commodity.

Sigma Metal and Power Private Limited (SMPPL) [formerly Sadahari Shakti Private Limited]: is engaged in the manufacturing and distribution TMT bars, MS Billets, metal scrap etc. The company has installed capacity of 72,000 metric tonne per annum and is planning to increase its existing capacity to 180,000 metric tonne per annum.

Sigma Castings Limited: The company is engaged in the manufacturing of M.S. Ingots. The company majorly sells its MS Ingots to SRR IPL. Further, the company is also engaged in the business of manufacturing and trading of edible oil, import license & machinery parts and fabricated sheets. The company is also involved in trading of commodity.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	570.68	857.60	NA
PBILDT	16.45	14.57	NA
PAT	3.23	4.44	NA
Overall gearing (times)	1.01	0.96	NA
Interest coverage (times)	1.29	1.33	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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		-	-	-	8.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	Dec 2023	2.21	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	3.00	CARE A4+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	8.00	CARE BB+; Stable	-	-	-	-

2	Fund-based - LT-Term Loan	LT	2.21	CARE BB+; Stable	-	-	-	-
3	Non-fund-based - ST-BG/LC	ST	3.00	CARE A4+	-	-	-	-

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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