Kashvi International Private Limited

June 29, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	22.50	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Short Term Bank Facilities	7.50	CARE A3+ (A Three Plus)	Assigned
Total Bank Facilities	**30.00 (₹ Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Kashvi International Private Limited (KIPL) take into account long experience of promoters in the iron and steel industry, strategic location of the plant, backward integration in the form of iron ore mine from H2FY21 onwards, substantial y-o-y improvement in financial performance of the company over the last three years viz FY20-FY22 on the back of improved capacity utilization leading to increase in sales volume and higher sales realization of sponge iron. This apart, the rating also considers satisfactory and improving capital structure and debt coverage indicators and satisfactory working capital cycle.

The rating however is constrained by short track record of operations of the company, low profitability margins, cyclicality associated with steel industry, susceptibility of profitability to fluctuation in the price of finished goods, high exposure of KIPL in its subsidiaries coupled with risk associated with large sized capex for setting up of billet manufacturing plant and captive power plant.

Rating Sensitivities

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

- Increase in PBILDT per tonne above Rs 1000/tonne on a sustained basis
- Sustenance of overall gearing and TD/GCA below unity and 2x respectively on a sustained basis.

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

- Any un-envisaged debt funded capex leading to deterioration in overall gearing and TD/GCA beyond 1.00x and 2.50x respectively, on a sustained basis.
- Substantial decline in capacity utilization of sponge iron division.
- Any further increase in exposure in subsidiaries

Detailed description of the key rating drivers

Key Rating Strengths

Experience promoters albeit short track record of operations

Mr Debabrata Behera has around two and half decades of experience in the iron and steel industry. He has worked in various iron and steel companies in different capacities before incorporating his own company viz Kashvi Power and Steel Private Limited in 2009 which primarily deals in trading of iron ore fines. KIPL was incorporated in 2007 but it remained dormant until Feb'2018 when it was acquired by the current promoter. Hence, the track record of operations of the company is short.

Strategic location of plant and backward integration on account of allocation of iron ore mine

KIPL's manufacturing facility is located in Keonjhar, Orissa which is well connected through road transport facilitating easy transportation of raw materials and finished products. With the acquisition of iron ore mining lease in FY20, the company would no longer be required to depend on open market for its iron ore requirements. Further, the company also has a 2MW captive power plant in its premises to support company's power requirements. KIPL is planning to replace it with a 4 MW captive power plant by the end of Juy'22. The capex for the same has already been incurred by the company.

High capacity utilization of the sponge iron unit

The capacity utilization (CU) of KIPL has been increasing y-o-y on account of increase in production of sponge iron. As FY19 was the first year of operations, there were some repair and maintenance work in the plant due to which the production was lower in FY19. The production picked up pace in FY20 and CU increased substantially to 86%. The CU had further increased to 91% in FY21 and 95% in FY22 on account of use of better-quality imported coal from FY21 onwards.

Improvement in financial performance between FY19 and FY22 (Prov) albeit low profitability margins

The total operating income (TOI) of KIPL has been increasing y-o-y from Rs 106.30 crore in FY19 to Rs 923.42 crore in FY22. The y-o-y growth in TOI is attributable to both increase in sales volume and sales realization of sponge iron as well as iron ore. On account of the arrangement between KIPL and Crackers India Alloys Limited (CIAL), wherein KIPL purchases sponge iron from CIAL and sell it in the open market. Hence, the sales volume of sponge iron in KIPL has increased substantially in FY21 as KIPL is selling sponge iron produced in house coupled with the sponge iron purchased from CIAL. This apart, the iron ore mine's

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

operations have commenced from Sep 2020 onwards, accordingly step rise in turnover in FY21 is also attributable to higher sales of iron ore. FY22, being the first full year of mining operations for KIPL has led to further increase in revenue on the back of increase in sales volume of iron ore by more than 100%.
The company has reported low PBILDT margin in the range of 5-7% over the last three years, albeit substantial increase in PBILDT from ~Rs 10 crore in FY20 to ~Rs 54 crore in FY22 on the back of increased scale of operations.

Satisfactory and improving capital structure and debt protection metrics
The debt equity and overall gearing ratio have improved y-o-y from 1.14x and 1.75x as on March 31, 2019 to 0.54x and 0.73x as on March 31, 2022 respectively on account of repayment of term loan and unsecured loans coupled with accretion of profits to reserve. TD/GCA has deteriorated y-o-y from 8.61x in FY19 to 9.47x in FY20 on account of increase in debt levels without corresponding increase in cash profits. However, TD/GCA has improved substantially to 4.12x and 1.64x in FY21 and FY22 respectively on account of significant improvement in cash profits.

Satisfactory working capital cycle
The working capital cycle of the company stood comfortable at 28 days in FY22 as against 56 days in FY21. The operating cycle is satisfactory on account of low credit period offered to customers of sponge iron while iron ore is mostly sold against advance. Further, since the company now has iron ore mines which can be captively used for sponge iron, working capital intensity is low. With acquisition of iron ore mines, the company only purchases coal as a raw material from open market which is mostly purchased against advance. Low average debtor days along with low average creditors days allows the company to operate with low working capital limits (current CC limit- Rs 15 cr). However, with increasing scale of operations, the company is planning to enhance its CC limit.

Key Rating Weaknesses
High exposure in subsidiaries
KIPL has high exposure in its subsidiaries in the form of investments. The total exposure stood at Rs 57.73 crore as on March 31, 2022 accounting for ~68% of the tangible networth of KIPL. The company has investments of Rs 15 crore (51% stake) in Crackers India Alloys Limited (CIAL) which is engaged in manufacturing of sponge iron for KIPL and also runs a petrol pump. This apart, KIPL has invested Rs 42.73 crore (53.83% stake) in Kashvi Power & Steel Private Limited (KPSPL) which is engaged in trading of iron ore fines and also runs a shopping mall in Orissa. Given high exposure of KIPL in these two entities, any further increase in exposure in CIAL and KPSPL will be a key monitorable.

Large sized capex albeit funded entirely through internal accruals
The company is planning to set up two furnaces for manufacturing of billets with total installed capacity of ~28,000 MTPA at a project cost of Rs 10 crore. This apart, the company has also planned to set up a 5MW captive power plant at a total cost of Rs 33 cr. As per management enunciation, both the projects would be funded entirely out of internal accruals. In FY22, KIPL has spent Rs 1.50 crore and plans to incur the remaining project cost in the next two-three years.
Further, the company is also planning to set up a pellet manufacturing plant (9 km away from its Jaribahal Iron Ore Mine), however; the same is in nascent stage and would be implemented subject to receipt of environmental clearances.

Cyclicality associated with the steel industry
Sponge iron is a raw material used in the steel industry, hence its demand is dependent on the fortunes of steel industry. Steel is a cyclical industry, strongly correlated to economic cycles since its key users i.e., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Fall in demand in any of these sectors directly impacts the demand of steel products. The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.

Profitability susceptible to volatility in the prices of finished goods
The prices of finished goods are volatile in nature due to commodity nature of product whose prices are determined based on demand & supply. Given the volatility in finished goods prices, the profitability of the company is susceptible to fluctuation in their prices.

Industry Outlook
The disruption in global steel supply is expected to benefit the Indian steel industry. Russia being the major exporter of steel to European Union (EU), the restrictions on the export from Russia to EU will create opportunity for India. In addition, the demand for Indian steel industry will be supported by increased government spending on infrastructure and a gradual economic recovery. The Union Budget 2022-23 has seen an increase of 36% Y-o-Y in allocation of capex at Rs. 7.5 lakh crore. The budget has infrastructure push towards seven engines (roads, railways, airports, ports, mass transport, waterways and logistic infra). Further, the allocation for various schemes like Pradhan Mantri Awas Yojana (PMAY) scheme, Jal Jeevan Mission will have a positive impact on specialty steel and long steel players.
Liquidity: Adequate
The liquidity position of the company is adequate with cash accruals of Rs 37.74 crore as against debt repayment of Rs 24.44 crore in FY22. The average utilization of fund based and non-fund based limits stood at ~56% and ~98% respectively for the last 12 months ended April'22. Going forward, the cash accruals of the company in FY23 are expected to be sufficient to meet the future debt repayment obligations. Further, in order to meet its growing working capital requirements on the back of increased scale, KIPL is planning to enhance its Cash Credit limit.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing Companies
Rating Methodology - Steel Companies
Criteria for Short Term Instruments

About the company
Kashvi International Private Limited (KIPL) was incorporated in July 2007 by Mr. Debabrata Behera along with Susmita Behera. The company was initially dormant, however post-acquisition of sponge iron plant from Patnaik Mineral Private Limited (rated CARE A2), KIPL started manufacturing sponge iron from February'2018. The plant is located in Keonjhar district of Orissa and has current installed capacity of 90,000 MTPA (3*100 TPD). In FY20, KIPL has acquired iron ore mining lease for 50 years in "Jaribahal Iron Ore Block" situated in Keonjhar, Orissa through e-auction conducted by Government of Orissa. The mine has yearly mining capacity of 1 million tonne and has become operational under KIPL since September'2020. It was initially allocated to KIPL for captive purpose only, however; post October 01, 2021, 50% of the mine can be used for captive purpose and remaining 50% for merchant trading. KIPL also has a 2MW captive power plant (WHRB based) which it is planning to replace with a 4 MW captive power plant by the end of July'22.

Brief Financials (Rs. Crore)	FY21(A)	FY22 (Prov.)	2MFY23 (UA)
Total operating income	395.93	923.42	NA
PBILDT	28.12	54.14	NA
PAT	11.22	24.62	NA
Overall gearing (times)	1.35	0.73	NA
Interest coverage (times)	6.04	8.47	NA

A: Audited, Prov: Provisional, UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: India Ratings continues to maintain rating of KIPL under "Issuer Not Cooperating" category vide PR dated July 16, 2021.

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Sept'24	7.50	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	-	15.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	2.50	CARE A3+
Non-fund-based - ST-Bank Guarantee	-	-	-	-	5.00	CARE A3+

Annexure-2: Rating History of 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-Term Loan	LT	7.50	CARE BBB; Stable				
2	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB; Stable				
3	Non-fund-based - ST-Letter of credit	ST	2.50	CARE A3+				
4	Non-fund-based - ST-Bank Guarantee	ST	5.00	CARE A3+				

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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