

Kaushal Ferro Metals Private Limited

December 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	1.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	11.00 (Rs. Eleven Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Kaushal Ferro Metals Private Limited (KF MPL) to monitor the rating(s) vide e-mail communications/letters dated July 20 2021, December 13 2021 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, Kaushal Ferro Metals Private Limited has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Kaushal Ferro Metals Private Limited's bank facilities will now be denoted as **CARE B+; Stable; Issuer Not Cooperating/CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of lack of adequate information and uncertainty around the credit risk profile of the company.

Rating Sensitivities: Not Applicable

Detailed description of the key rating drivers

At the time of last rating on March 15 2021, the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Moderate scale of operation with moderate profitability margin

KF MPL is a moderate player in iron and steel products manufacturing business with total operating income of Rs.104.84 crore (Rs.128.61 crore in FY19) with a net profit of Rs. 0.74 crore (net profit of Rs.1.54 crore in FY19) crore in FY20. However, the total operating income has deteriorated in FY20 mainly on account of lower sales realization during FY20 owing to relatively lower demand of its products in the market and market price fluctuation. The tangible net worth of the company remained at Rs.35.67 crore as on March 31, 2020. The small size restricts the financial flexibility of the company in times of stress and it suffers on account of economies of scale. The profitability margins of the company remained moderate marked by PBILDT margin of 4.78% (operating margin in FY19: 4.79%) in FY20 and the PAT margin of the company remained at 0.71% (PAT margin in FY19: 1.20%) in FY20 on account of lower operating profit and higher depreciation during the said period. In 11MFY21, the company has achieved a turnover of Rs.105.66 crore and they are expecting to earn total revenue of Rs. 116 crores in FY21.

The COVID-19 pandemic has rapidly spread throughout the world. The Company's plants and offices were under nationwide lockdown since March 25, 2020. As a result of the lockdown, the production for the month of March 2020 had been impacted. Moreover, the plant was shut down from March 24, 2020 to May 05, 2020 and the company has resumed its operation from May 06, 2020 as per the direction of the government. Further, the company has availed moratorium of its bank facilities for six months (from March 2020 to August 2020) and they are paying interest on time from September 2020. Further company has taken COVID loan of Rs.1.00 crore as on February 2021.

Lack of backward integration vis-à-vis volatility in prices

The degree of backward integration defines the ability of the company to minimize price volatility risk and withstand cyclical downturns generally witnessed in the iron and steel industry. KF MPL does not have any backward integration for its basic raw material (iron ore and coal) and will purchase the same from open market. Since the raw material is the major cost driver and

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

*Issuer did not cooperate; Based on best available information

raw material prices are volatile in nature, the profitability margin of the company will remain susceptible to fluctuation in raw material prices.

Highly competitive and fragmented industry

The spectrum of the steel industry in which the company operates is highly fragmented and competitive marked by the presence of numerous players in India. Hence the players in the industry do not have pricing power and are exposed to competition induced pressures on profitability. This apart, KFMPL's products being steel related, it is subjected to the risks associated with the industry like cyclical and price volatility.

Working capital intensive nature of operation

KFMPL's business, being manufacturing of steel products, is working capital intensive. During FY20, operating cycle was around 30 days due to high inventory period of around 75 days as the company stocks raw materials to avoid price fluctuation risk. This apart, collection period was also around 20 days during FY20. However, the company has stretched creditors' days to 65 days in FY20. The aforesaid reason led to higher utilization of its bank borrowings at around 90% during the last 12 months ended Feb.2021.

Key Rating Strengths

Experienced promoters with satisfactory track record of operation

KFMPL is currently managed by Mr. Sitaram Agrawal (Director), Mr. Ganesh Agrawal (Director) and Mr. Rambihari Upadhayay (Director) looks after the day-to-day activities of the business along with other three directors and a team of experienced personnel. The directors are having more than two decades of experience in similar line of business. This apart, the company is in operation from the year 2007, thus enjoying a satisfactory track record of operation.

Strategic location of manufacturing plant and moderate capacity utilization in FY20

The manufacturing facility of KFMPL is located in Sundargarh district in Odisha, which is in close proximity to source of its key raw materials, iron ore and coal, for manufacturing of its products. The company meets the coal requirement from nearby coal fields. This apart, the plant is well connected through road and rail transport, thus facilitating easy transportation of raw materials and finished goods. Human resource is also abundantly available near plant at low cost.

Comfortable capital structure and satisfactory debt coverage indicators

The capital structure of the company has remained comfortable and marked by overall gearing ratio at 0.37x as on March 31, 2020 as compared to 0.39x as on March 31, 2019 on account of scheduled repayment of term loan and accretion in profits to reserve. The debt coverage indicators of the company have marginally deteriorated marked by interest coverage of 2.28x (FY19: 2.65x) and total debt to GCA of 4.68x (FY19: 3.51x) in FY20. Moreover, the interest coverage ratio deteriorated during FY20 on account of decline in PBILDT level. Furthermore, the total debt to GCA also deteriorated during FY20 on account of higher debt levels along-with lower generation of gross cash accruals during the year.

Liquidity: Not Applicable

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Rating Methodology - Steel Industry](#)

About the Company

Kaushal Ferro Metals Private Limited (KFMPL) was incorporated in December 2004 to initiate an iron and steel products manufacturing unit. However, after incorporation, the company remained dormant and started commercial operation during the year 2007. The company installed a sponge iron manufacturing unit at Sundargarh district in Odisha with an installed capacity of 60,000 MTPA.

Mr. Sitaram Agrawal (Director), Mr. Ganesh Agrawal (Director) and Mr. Ram Bihari Upadhayay (Director) looks after the day-to-day activities of the business along with other three directors and a team of experienced personnel.

Brief Financials (Rs. crore)	31-03-2019 (A)	31-03-2020 (A)	11MFY21 (P)	H1FY22 (P)
Total operating income	128.61	104.84	105.66	NA
PBILDT	6.16	5.01	NA	NA
PAT	1.54	0.74	NA	NA
Overall gearing (times)	0.39	0.37	NA	NA
Interest coverage (times)	2.65	2.28	NA	NA

A: Audited; P: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL Ratings continues to place the rating of KFMPL under Issuer Not Cooperating vide Press release dated October 14, 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE B+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable (15-Mar-21)	1)CARE BB-; Stable (16-Dec-19)	1)CARE B+; Stable (22-Mar-19)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (16-Dec-19)	1)CARE B+; Stable (22-Mar-19)
3	Non-fund-based - ST-BG/LC	ST	1.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (15-Mar-21)	1)CARE A4 (16-Dec-19)	1)CARE A4 (22-Mar-19)

*Issuer did not cooperate; Based on best available information

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	Non-fund-based - ST-BG/LC	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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