

## K B Sponge Iron Limited

March 31, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	5.99 (Enhanced from 5.29)	CARE BB+; Stable (Double B Plus; Outlook: Stable )	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	5.60	CARE A4+ (A Four Plus )	Revised from CARE A4 (A Four)
Long Term / Short Term Bank Facilities	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>11.59</b> <b>(Rs. Eleven Crore and Fifty-Nine Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of K B Sponge Iron Limited (KBSIL) considers the improvement in scale of operation during FY21 (refers to the period April 1 to March 31) and 9MFY22 with utilisation of enhanced production capacity and sustained demand. The ratings, continue to derive strength from experienced management with satisfactory track record of operation.

The ratings, however, continue to be constrained by its low networth base, low profitability margin, exposure to volatility in raw material prices and stiff competition due to fragmented and cyclical nature of the industry with presence of many unorganized players, and moderate debt coverage indicators.

### Rating Sensitivities

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

- Growth in scale of operations with total operating income of above Rs.200 crore and sustained profitability.
- Improvement in capital structure and liquidity profile.

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

- Deterioration in the capital structure as marked by overall gearing ratio above 3.00x on a sustained basis
- Decline in coverage indicators as marked by interest coverage ratio below 1.50x and total debt to GCA of above 10.00x on a sustained basis.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Low networth base and small size of operation:** KBSIL is a relatively small player, with an installed capacity of 61,200 MTPA for Mild Steels Ingot/Billets, in comparison to other players operating in this industry. Further, overall networth of KBSIL also remains low at Rs.5.76 crore as on March 31, 2021. The small size deprives it from the benefits of economies of scale and restricts the financial flexibility of the company in times of stress.

**Exposure to volatility in raw material prices:** KBSIL procures its key raw materials like sponge iron, iron scrap and pig iron from local suppliers and is exposed to volatility in the prices of its raw materials.

Going forward, the ability of the company to pass on the entire increase in raw material prices to its clients in an intensely competitive industry will remain critical.

**Leveraged capital structure with moderate debt coverage indicators:** The capital structure of the company has remained leveraged with overall gearing ratio at 3.16x as on March 31, 2021 (3.08x as on March 31, 2020) on account of low networth base and high debt level. Debt mostly comprise of unsecured loan from related party. However, the debt coverage indicators slightly improved but remain moderate. The interest coverage improved to 2.06x in FY21 as against 1.67x in FY20 on account of increase in PBILD level. Further, total debt to GCA also improved to 12.39x as on March 31, 2021 from 27.51x as on March 31, 2020 on account of relatively better GCA level in FY21.

**Stiff competition due to fragmented and cyclical nature of the industry with presence of many unorganized players:** The Company is engaged in the manufacturing of ingots/billets, which is primarily dominated by large players and characterized by high fragmentation and competition due to the presence of numerous players in India owing to relatively low entry barriers. Steel consumption and, in turn, production mainly depends upon the economic activities in the country. Construction and infrastructure sectors drive the consumption of steel. Slowdown in these sectors may lead to decline in demand of steel. Furthermore, all these industries are susceptible to economic scenarios and are cyclical in nature.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key Rating Strengths

**Experienced management with satisfactory track record of operation:** KBSIL is into manufacturing of ingots/billets from 2007, thus has satisfactory track record of operations. All the promoters of the company; Mr. Ramesh Kumar Kejriwal, Mr. Aditya Kejriwal and Mr. Vishwal Kejriwal are having more than one decade of experience in similar line of business, looks after the day to day operations of the company along with a team of experienced professionals who have rich experience in the similar line of business.

**Growing revenue, however, profitability margin remains low due to low value addition:** The company has extended its production capacity from 25200 MT to 61200 MT from the month of June; 2020 which resulted sharp improvement in scale of operation. Production almost doubled from 22,000 MT in FY20 to 43,800 MT in FY21.

Consequently, the operating income of KBSIL had substantially increased to Rs. 144.32 crore in FY21 as against Rs. 63.08 crore in FY20 with y-o-y improvement of 128.78% due to steady demand scenario for its enhanced capacity. However, profitability margin remained low with operating margin around 2% in FY21 due to low value addition in product profile. The company reported PAT margin of 0.33% in FY21 as against 0.07% in FY20. Further, the company earned GCA of Rs. 1.47 crore as against repayment obligation of Rs.0.56 crore in FY21. The company had not provided details breakup of sales realization and input cost. In 9MFY22, the company reported PBT of Rs.1.40 crore on operating income of Rs.148.95 crore.

**Industry Outlook:** CARE Ratings expects the domestic steel demand to grow at a CAGR of about 7.5% during the next 2-3 years. Steel demand will be supported by economic recovery, government spending on infrastructure, revival in capex cycle and enhanced liquidity. The Union Budget for 2021- 2022 has a sharp 34.5% y-o-y increase in allocation for Capex at 5.54 lakh crore. The budget's thrust is on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, and roads, transport and highways would provide impetus to steel consumption.

## Liquidity: Stretched

Liquidity is marked by low cash accruals, low cash balance and below unity current ratio. The average utilization of bank limits was remained high at 92% during last 12 month ended on February 28, 2022. The unencumbered cash and cash equivalent stood at Rs.0.23 crore as on March 31, 2021.

## Analytical approach: Standalone

## 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](#)

[Policy on Withdrawal of Ratings](#)

## About the company

KBSIL, promoted by Kejriwal family of West Bengal, was incorporated in April 2002 and started its operation since 2007. The Company has been engaged in manufacturing of ingots/billets. Currently company have an installed capacity of 61200 metric tons per annum (MTPA) (enhanced from 25200 MTPA from June 2020). The manufacturing facility of the company is located at Durgapur, West Bengal. The day-to-day operation of the company is looked after by Mr. Ramesh Kumar Kejriwal with the support of other directors and a team of experienced professionals.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	63.08	144.32	148.95
PBILDT	1.60	3.13	2.72
PAT	0.05	0.47	NA
Overall gearing (times)	3.08	3.16	NA
Interest coverage (times)	1.67	2.06	NA

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

## Status of non-cooperation with previous CRA: Not Applicable

## 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 facilities is given in Annexure-3

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

**Annexure-1: Details of 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-Term Loan		-	-	Feb-2026	2.44	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	3.55	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	5.60	CARE A4+
Fund-based/Non-fund-based-LT/ST		-	-	-	0.00	Withdrawn

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			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-Term Loan	LT	2.44	CARE BB+; Stable	-	1)CARE BB; Stable (10-Feb-21)	1)CARE BB; Stable (06-Dec-19)	-
2	Fund-based - LT-Cash Credit	LT	3.55	CARE BB+; Stable	-	1)CARE BB; Stable (10-Feb-21)	1)CARE BB; Stable (06-Dec-19)	-
3	Non-fund-based - ST-Bank Guarantee	ST	5.60	CARE A4+	-	1)CARE A4 (10-Feb-21)	1)CARE A4 (06-Dec-19)	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	1)CARE BB; Stable / CARE A4 (10-Feb-21)	1)CARE BB; Stable / CARE A4 (06-Dec-19)	-

\* Long Term / Short Term

**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	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-Bank Guarantee	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.

## Contact us

### Media Contact

Name: Mradul Mishra  
Contact no.: +91-22-6754 3573  
Email ID: mradul.mishra@careedge.in

### Analyst Contact

Name: Richa Bagaria  
Contact no.: 9903470650  
Email ID: richa.jain@careedge.in

### Relationship Contact

Name: Lalit Sikaria  
Contact no.: + 91-033- 40181600  
Email ID: lalit.sikaria@careedge.in

### About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

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.

### Disclaimer

The ratings issued by CARE Ratings Limited 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 Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited 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 Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited 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 Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careedge.in](http://www.careedge.in)**