

Devarpan Foods Private Limited
 January 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	18.19	CARE BBB- (CE); Stable [Triple B Minus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total	18.19 (Rs. Eighteen crore nineteen lakh only)		

Details of instruments/facilities in Annexure-1

The bank facilities of Devarpan Foods Private Limited (DFPL) are backed by letter of comfort provided by Kashi Vishwanath Steels Private Limited (KVSPL, rated CARE BBB; Stable/ CARE A3+)

Unsupported Rating²	CARE BB (Double B)
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Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for credit enhanced debt

The above rating assigned to the bank facilities of Devarpan Foods Private Limited (DFPL) is based on credit enhancement in the form of letter of comfort (backed by board resolution) provided by Kashi Vishwanath Steels Private Limited.

Detailed Rationale & Key Rating Drivers of Kashi Vishwanath Steels Private Limited

The ratings assigned to the bank facilities of KVSPL continue to take into account the experience of the promoters, company's long track record of operations and established market position with a wide marketing network. The ratings also derive strength from increase in scale of operations in FY19 (refers to the period from April 01, 2018 to March 31, 2019), comfortable financial risk profile marked by low overall gearing and moderate operating cycle of the company. The ratings are, however, constrained by decline in profitability margins in FY19, exposure to its group companies, susceptibility of profit margins to volatility in raw material prices and competitive nature of steel industry with inherent cyclicity.

Key Rating Drivers for Devarpan Foods Private Limited

The unsupported ratings assigned to the bank facilities of DFPL are constrained by small scale of operations with decline in profitability margins in FY19, weak financial risk profile and short track record of the company. The ratings are also constrained by stretched liquidity, concentrated customer base and highly fragmented nature of the industry with many regional players. However, the ratings derive strength from the experience of promoters, moderate operating cycle, and reputed clientele of the company.

Rating Sensitivities (KVSPL):**Positive:**

- Increase in scale of operations to above Rs.500 crore with PBILDT margin in excess of 5.50%

Negative:

- Adjusted overall gearing deteriorating beyond 1.50x

Key Rating Strengths (CE ratings)

Experienced promoters and long track record of operations: KVSPL is promoted by Mr Devendra Kumar Agarwal, having over three decades of experience in the steel industry and is ably supported by his son Mr. Arpan Jindal, having an experience of more than a decade in the business. The established track record of the company and long experience of the promoters will further aid them to better understand the trends in demand and supply dynamics of the industry.

Established brand name and wide marketing network: KVSPL sells its products viz. TMT bars and allied product (angles, channels, square, beams) through a network of dealers/distributors under the brand name 'KVS Premier' in Uttarakhand, Uttar Pradesh and NCR. Further, KVSPL has diversified customer base with no single customer contributing more than 7% (PY: 7%) of net sales in FY19.

Improvement in operating scale albeit decline in profitability margins: KVSPL reported a healthy growth of more than 50% in its total operating income during FY19 which was reported at Rs.393.61 crore (PY: Rs.249.87 crore). However, the PBILDT margin of the company decreased to 5.03% in FY19 (PY: 6.55%) due to higher raw material prices. Nonetheless, the PAT

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

²As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019

margin improved marginally to 2.03% in FY19 (PY: 1.79%) due to lower tax expenses. In H1FY20 (refers to the period from April 01, 2019 to September 30, 2019), company has reported a total operating income of Rs.182.65 crore and a PBILDT of Rs.9.47 crore.

Comfortable financial risk profile: KVSPL has a comfortable financial risk profile as reflected by a low overall gearing of 0.50x as on March 31, 2019 (PY: 0.57x). The slight improvement was on account of accretion to net worth due to higher profit. The company reported higher cash accruals resulting in improvement in total debt to GCA to 2.07x as on March 31, 2019 (PY: 2.55x). PBILDT interest coverage of the company also improved and stood healthy at 6.59x in FY19 (PY: 4.99x).

Moderate operating cycle: The working capital cycle of the company improved and stood moderate at 22 days as on March 31, 2019 (PY: 29 days). The decrease in working capital cycle was largely on account of decrease in inventory holding period which decreased to 21 days as on March 31, 2019 (PY: 29 days). The average credit period stood similar to the previous year at 14 days as on March 31, 2019 (PY: 17 days). Similarly, a marginal decrease was registered in average collection period which stood at 16 days as on March 31, 2019 (PY: 18 days).

Key Rating Weaknesses

Exposure to group companies: KVSPL had non-current equity investments in its group companies and associates worth Rs.7.11 cr as on March 31, 2019 which has reduced from Rs.12.89 cr as on March 31, 2018. The company has also extended a letter of comfort for the bank facilities of its group company, Devarpan Foods Private Limited. Any incremental exposure towards the group companies in the future will remain key monitorable.

Susceptibility of margins to volatility in raw material prices: Raw material cost accounts for around 70%-80% of total cost of sales of KVSPL, and prices for iron and steel are highly volatile which exposes it to price risk. The company is not able to fully pass on the volatility in raw material prices to its customers on timely basis due to high competition and hence the effect is visible in its profit margins.

Highly competitive and cyclical nature of industry: The steel industry is highly competitive due to presence of various organized and unorganized players and limited product diversity due to commodity nature of products. 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 in the demand and supply conditions in the market.

Prospects: CARE expects India's steel consumption to grow by 5%-6% during FY20 on the back of government's expenditure towards infrastructure and construction. Finished steel production is likely to grow by a modest pace of 4% during the year FY20 on a y-o-y basis. An uptick in construction activities post monsoon season will result in higher steel demand which, in turn, is expected to bring some relief to long steel products' demand and prices. Also, some recovery is likely in automotive industry during H2FY20 which is expected to provide some support to the flat products' prices sequentially. The increase in prices however is expected to be moderate going forward and would also depend on global steel prices.

Liquidity: Adequate

The liquidity profile of the company is marked by current ratio of 1.60x as on March 31, 2019 (PY: 1.38x) and gross cash accruals of Rs.14.38 as on March 31, 2019 against loan repayment of Rs.1.13 crore in FY20. The average utilization level of fund-based limits stood at ~67% for the trailing 12 month period ended November 2019. The company also maintained free cash and cash equivalents worth Rs.10.95 crore as on March 31, 2019 (PY: Rs.4.36 crore).

Analytical approach: Standalone, factoring in the Letter of comfort provided to Devarpan Foods Private Limited by Kashi Vishwanath Steels Private Limited.

Applicable Criteria

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology-Steel Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for Factoring Linkages in Ratings](#)

About the company- Kashi Vishwanath Steels Private Limited

KVSPL, incorporated in 1985, was promoted by Mr. Mithilesh Kumar Agarwal and is engaged in manufacturing of mild steel products such as thermo-mechanically treated (TMT) bars, angles, channels, square, beams, etc. Currently, the company is being spearheaded by his son Mr. Devendra Kumar Agarwal and grandson Mr. Arpan Jindal. KVSPL has a manufacturing plant at Kashipur, Uttarakhand with installed capacity of 1,34,400 metric tonne per annum (MTPA) for melting, 1,02,610 MPTA for rolling and 28,800 MTPA for ribbed bars as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	249.87	393.61
PBILDT	16.37	19.83
PAT	4.47	8.01
Overall gearing (times)	0.57	0.50
Interest coverage (times)	4.99	6.59

A: Audited

About the company- Devarpan Foods Private Limited:

Devarpan Foods Private Limited (DFPL), a part of KVS Premier group, is an Uttarakhand based company, promoted by Mr. Devendra Kumar Agarwal & Mr. Arpan Jindal. The company was incorporated on September 19, 2016 and has set up a plant for manufacturing of Potato Chips, Potato namkeen, Extruded Salted & Sweets Snacks, other fried & baked snacks etc. It is manufacturing these products under brand name of 'Devarpan'. The manufacturing unit is situated at Narain Nagar Industrial Estate, Bazpur Road, Kashipur - Uttarakhand. It is also selling its products in the outlets of Walmart (Best Price). Apart from manufacturing for its own brand, DFPL is doing contract manufacturing for Guiltfree Industries Ltd (Kolkata- A Goenka Group Companies), Rakesh Masala Pvt Ltd (Noida) and Pratap Snacks Limited (Indore).

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	25.45	37.11
PBILDT	3.12	2.84
PAT	0.05	0.95
Overall gearing (times)	5.65	6.13
Interest coverage (times)	3.86	1.35

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2024	15.19	CARE BBB- (CE); Stable
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE BBB- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE BB

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	15.19	CARE BBB- (CE); Stable	-	1)CARE BBB-(SO); Stable (28-Dec-18)	1)CARE BBB-(SO); Stable (06-Feb-18)	-
2.	Fund-based - LT-Cash Credit	LT	3.00	CARE BBB- (CE); Stable	-	1)CARE BBB-(SO); Stable (28-Dec-18)	1)CARE BBB-(SO); Stable (06-Feb-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	
(i) Term loan and Cash credit facility- Yes Bank	Backed by Letter of Comfort provided by Kashi Vishwanath Steels Private Limited

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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