

## Devarpan Foods Private Limited

December 30, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	24.82 (Enhanced from 18.19)	CARE BBB- (CE); Stable [Triple B Minus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Long term/Short term Facilities	2.00	CARE BBB- (CE); Stable/ CARE A3 (CE)	Assigned
<b>Total Facilities</b>	<b>26.82</b> <b>(Rs. Twenty-six Crore and eighty two Lakhs Only)</b>		

Details of 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 Rating

As stipulated vide SEBI circular dated June 13, 2019

**CARE BB [Reaffirmed], CARE A4 [Assigned]**

#### Detailed Rationale & Key Rating Drivers

The above rating assigned to 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 CE Rating

The credit profile of Kashi Vishwanath Steels Private Limited (KVSPL) continues to derive strength from experienced promoters with long track record of operations and its established brand name and marketing network. The rating also takes into account moderate working capital cycle and average financial risk profile of KVSPL. The rating strengths are however tempered by subdued operational & financial performance during FY20 (refers to period from April 01 to March 31) marked by decline in total income as well as profitability margins, the company's exposure towards group company, ramping up risk associated with debt funded projects completed by the company and highly competitive and cyclical nature of industry.

#### Detailed Rationale & Key Rating Drivers of unsupported Rating

The rating assigned to the bank facilities of Devarpan Foods Private Limited is constrained by small scale of operation, weak financial risk profile and short track record of operation. The rating is further constrained by concentrated clientele base and highly fragmented nature of industry with many regional players. However, the rating derives strength from experienced promoters, moderate operating cycle and improved profitability margins during FY20 (refers to period from April 01, 2019 to March 31, 2020) and reputed clientele.

#### Rating Sensitivities (CE Rating)

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

- Increase in scale of operations while maintaining PBILDT margin above 5.50%
- Achievement of envisaged benefits from the projects completed by the company.

**Negative:** Factors that could lead to positive rating action/upgrade

- Adjusted gearing deteriorating to above 1.5x and further weakening of other debt metrics.

#### Key Rating Strengths (CE Rating)

**Experienced promoters and long track record of operations:** KVSPL is promoted by Mr. Mithilesh Kumar Agarwal in 1985. At present, Mr. Devendra Kumar Agarwal is Managing Director of the company and he is supported by Mr. Arpan Jindal (Director). The operations of the company is handled by qualified and experienced management team; thus enabling in better understanding of trends in demand and supply dynamics of the industry and various economic cycle.

**Established brand name and marketing network:** The manufactured products viz TMT bars and allied products are sold under brand name 'KVS Premier' through network of 200-300 dealers dispersed across NC, Uttar Pradesh and Uttarakhand. The revenue derived from top 10 client during FY20 remained at 32% against 37% in FY19.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Moderate operating cycle:** The working capital cycle of the company remained at moderate level at 28 days during FY20 as against 22 days in FY19. The marginal increase in operating cycle was largely on account of increased collection period from 16 days in FY19 to 25 days in FY20, led by delay in realization of receivables due to COVID-19. The inventory days also increased from 21 days in FY19 to 26 days in FY20. However, company was able to receive additional credit period from its suppliers wherein the creditor's period increased from 14 days in FY19 to 24 days in FY20.

**Average financial risk profile:** The capital structure of the company represented by overall gearing ratio remained at comfortable level at 0.68x as on March 31, 2020 against 0.57x as on March 31, 2019. The marginal deterioration is on an account of debt funded capex undertaken by the company during FY20. Further, the total debt to GCA ratio increased to 5.11x as on March 31, 2020 against 2.36x as on March 31, 2019 due to lower profitability. The interest coverage ratio also reduced to 4.09x during FY20 (PY: 6.59x) on an account of reduced PBILDT level while interest cost increased marginally.

#### **Key Rating Weaknesses**

**Exposure to group companies:** KVSPL had non-current equity investments in its group companies and associates worth Rs.6.72 crore as on March 31, 2020 against Rs.7.11 crore as on March 31, 2019. 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 a 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 global prices for iron and steel are highly volatile which exposes it to commodity price risk. The company is not able to fully pass on the volatility in raw material prices to its customers due to high competition and hence the effect is visible in its profit margins.

**Subdued operational performance:** The company witnessed decline in operating income from Rs. 393.61 crore in FY19 to Rs.346.06 crore in FY20; registering de-growth of around 12% on account of decline in sales realization. In tandem with operating revenue, PBILDT margins also declined from 5.04% in FY19 to 3.76% in FY20. PAT margins also declined from 2.03% in FY19 to 0.86% in FY20. However, the company has reported total operating income and PBILDT of Rs.105.08 crore and Rs.8.11 crore during H1FY21 (refers to April 01, 2020 to September 30, 2020) (unaudited) despite halt in productions due to COVID -19 lockdown. Further, the company has reported PBILDT margin and PAT margin of 7.71% and 2.22% during H1FY21 (unaudited).

**Debt funded capex plan:** The company has undertaken two capex projects at a cost aggregating Rs.24.35 crore partly funded by debt. The project has been completed and the company has initiated trial runs. However, the achievement of envisaged benefit in future would be key monitorable factor.

#### **Impact of COVID-19 on business operations**

The business operations were impacted on an account of lockdown announced from March 24, 2020 in order to curb COVID-19 cases. Consequently, production was halted for the month of April 2020 and operations were gradually commenced from May 2020 onwards. With gradual relaxation in COVID lockdown norms and resumption of economic activities, the company witnessed increase in monthly sales.

**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, 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 shifting business cycles including changes in general economy, interest rates and seasonal changes in demand and supply conditions in market.

**Prospects:** CARE expects crude steel production to be lower by 8-10% and consumption to be lower by 10-12% for whole FY21, mainly impacted by poor first half. An up-cycle in international steel prices is expected to continue in H2FY21 due to increased steel consumption mainly by China on the back of stimulus package unveiled by the Chinese government which is keeping demand for industrial metals high. Firm international prices and pick up in domestic demand will also boost domestic steel prices. Steel prices have already exceeded pre-covid levels and are currently at a marginal premium to world export prices. Any rebound in coking coal prices will keep the steel prices firm. Domestic steel production and consumption is expected to remain steady going forward in H2FY21.

**Liquidity: Adequate**

KVSPL's liquidity profile remained adequate marked by a current ratio of 1.26x as on March 31, 2020 (PY: 1.60x) and average utilization level of ~80% for its fund-based limits for the trailing 12 month period ended October 2020. The company has projected a GCA of Rs.9.65 crore in FY21 against loan repayment obligation of Rs.0.88 crore. The company had further availed moratorium w.r.t principle payment for the period of March –August 2020. The company also maintained a free cash and cash equivalents worth Rs.6.07 crore as on March 31, 2020 (PY: Rs.10.95 crore).

**Analytical approach (CE Rating): Guarantor's assessment on standalone basis after factoring in group exposure.**

**Analytical approach (unsupported): Standalone after factoring in group support**

**Applicable Criteria**

[Rating Outlook and Credit Watch](#)

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

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Steel Industry](#)

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

[Liquidity analysis -Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[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 is engaged in manufacturing of TMT Bars, Angles, channels, square beam and has manufacturing plant at Kashiipur, Uttarakhand.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	393.61	346.06
PBILDT	19.83	13.00
PAT	8.01	2.98
Overall gearing (times)	0.57	0.68
Interest coverage (times)	6.59	4.09

A: Audited

**About the company - Devarpan Foods Private Limited**

Devarpan Foods Private Ltd (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; however, production commenced from September 15, 2017. The company has set up a plant for manufacturing of Potato Chips, Potato Namkeen, Sauces, Extruded Salted & Sweets Snacks, other fried & backed snacks etc. It is manufacturing the products under brand name of 'Devarpan'.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	37.11	34.32
PBILDT	2.84	4.32
PAT	0.54	0.42
Overall gearing (times)	6.13	5.26
Interest coverage (times)	1.35	1.83

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

**Any other information:** Not Applicable

**Rating History (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	-	-	August 2026	19.82	CARE BBB- (CE); Stable
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BBB- (CE); Stable
Non-Fund-based – LT/ST-LC/BG	-	-	-	2.00	CARE BBB- (CE); Stable/CARE A3 (CE)
Un Supported Rating-(LT/ST)	-	-	-	0.00	CARE BB/CARE A4

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	19.82	CARE BBB-(CE); Stable	-	1)CARE BBB- (CE); Stable (07-Jan-20) 2)CARE BBB- (CE); Stable (26-Dec-19)	1)CARE BBB- (SO); Stable (28-Dec-18)	1)CARE BBB- (SO); Stable (06-Feb-18)
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB-(CE); Stable	-	1)CARE BBB- (CE); Stable (07-Jan-20) 2)CARE BBB- (CE); Stable (26-Dec-19)	1)CARE BBB- (SO); Stable (28-Dec-18)	1)CARE BBB- (SO); Stable (06-Feb-18)
3.	Non-Fund-based – LT/ST-LC/BG	LT/ST	2.00	CARE BBB-(CE); Stable/CARE A3 (CE)	-	-	-	-
4.	Un Supported Rating- Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BB/CARE A4	-	1)CARE BB (07-Jan-20) 2)CARE BB; Stable (26-Dec-19)	-	-

**Annexure-3: Detailed explanation of covenants of rated instrument**

<i>Name of Instrument</i>	<i>Detailed explanation</i>
<b>A. Financial covenants</b>	
<b>Term loan &amp; cash credit facility – ICICI Bank</b>	<i>Backed by letter of comfort provided by Kashi Vishwanath Steels Private Limited</i>
<b>Term loan, cash credit facility &amp; LC/BG–Standard Chartered Bank</b>	<i>Backed by letter of comfort provided by Kashi Vishwanath Steels Private Limited</i>

**Annexure 4: Complexity level of various instruments rated for this Company**

<b>Sr. No.</b>	<b>Name of the Instrument</b>	<b>Complexity Level</b>
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
4.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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