

Kamdhenu Limited

July 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	130.00	CARE A- (Single A Minus) (Under credit watch with Negative implications)	Ratings continue to be under credit watch with negative implications
Short-term Bank Facilities	20.00	CARE A2+ (A Two Plus) (Under credit watch with Negative implications)	Ratings continue to be under credit watch with negative implications
Total Facilities	150.00 (Rs. One hundred and fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kamdhenu Limited (Kamdhenu) continue to be under credit watch with negative implications since exact implications of the fire incident at the paints manufacturing plant on the overall credit profile of the company are still not clear. Besides this, CARE will also evaluate the impact of the demerger of the paints division on its credit profile. The ratings continue to derive strength from its experienced and resourceful promoters, long track record of operations of the company and established dealer network, strong brand recall and low risk franchise business model. The ratings also factor in consistent growth in scale of operations with improving trend in net margins, the company's adequate liquidity position and healthy financial risk profile marked by comfortable gearing and debt service indicators. However, the rating strengths are partially off-set by low operating margins, exposure to raw material price volatility and highly competitive and cyclical nature of steel industry.

Going forward, the company's ability to sustain growth in volumes and royalty rates in its franchise model, improve operating margins and maintain a comfortable gearing would remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced & resourceful promoters with company's long track record of operations: The promoters of the company have an experience of around four decades in the steel industry which aids the company in better understanding of the trends in demand and supply dynamics of the industry. The company has a long track record of around 25 years in steel business and nearly one decade in paints.

Strong brand recall with low risk franchise business model: Kamdhenu is one of the strongest retail brand in TMT sales in India with capacity of about 3.3 million tonnes (including franchise units) as on March 31, 2019 and sales of around 2.5 million tonnes during FY19 (refers to the period April 1 to March 31). Over the years, the company has spent heavily on brand promotion and building dealer network which has equipped it to create a franchise business model. As on March 31, 2019, the company had around 75 units for manufacturing of steel rebars, structural steel products and colour coated profile sheets under the Kamdhenu Brand, and 10,500 plus dealer and distributor network spread across India.

Consistent growth in operating scale with improving net margins: The scale of operations is growing consistently marked by an increase of total operating income to Rs.1232.70 crore in FY19 (PY: Rs.1180.48 crore). The PAT margins also improved to 1.82% in FY19 (PY: 1.33%) owing to increase in PBILDT margins backed by higher manufacturing sales and royalty income, and decrease in depreciation and interest cost. As a result, the company's gross cash accruals increased to Rs.30.13 crores in FY19 from Rs.22.41 crores in FY18.

Healthy financial risk profile: The overall gearing of the company improved and stood comfortable due to accretion of profits to the net worth as on March 31, 2019. On account of healthy cash accruals, the total debt to GCA also improved to 3.42x as on March 31, 2019 (PY: 4.62x). The interest coverage of the company also increased to 4.67x in FY19 (PY: 3.54x) on account of decrease in the interest cost and increase in PBILDT during FY19.

Key Rating Weaknesses

Exposure to raw material price volatility: The raw material cost constituted 79% of the total cost of sales for FY19 (PY: 82%), thus exposing the company to the volatility in the prices of raw materials. Kamdhenu cannot pass on the full impact

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

of the fluctuation in raw material prices to its customers due to the high competition which has a bearing on the margins. However, it is relatively insulated from commodity risk in franchise model wherein it earns fixed price royalty.

Highly competitive and cyclic nature of industry: The steel bars industry is highly competitive due to presence of various organized and unorganized players and expanding applications of various types of steel bars. 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.

Adequate Liquidity

The working capital cycle of the company stood at 52 days as on March 31, 2019 (PY: 47 days). The average fund based working capital utilization of the company also stood moderate at around 68% during the trailing twelve months ending May 2019. The free cash and cash equivalents stood at Rs. 9.27 cr. as on March 31, 2019 (PY: Rs. 7.90 cr.).

Prospects: CARE expects India's steel consumption to grow by 5%-6% on the back of government's expenditure towards infrastructure and construction. With the same government coming to power, the focus will continue to remain on infrastructure development in the country.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology- Steel Sector](#)

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

About the Company

Kamdhenu was incorporated in September 1994 and started commercial operations in October 1995. The company has its plant in Bhiwadi, Rajasthan, for manufacturing of TMT bars with the capacity of 120000 tonne per annum (tpa) and ingots with capacity of 22,500 tpa. Kamdhenu has introduced Franchisee Model with steel rolling mills, providing the mills right to produce and sell TMT bars under brand name of 'Kamdhenu'. The company has also ventured into the paint business with an annual capacity of 46,000 tpa in its manufacturing facility at Chopanki, Rajasthan, which began operations in August 2008. The contribution of the paints division in the total operating income of the company stood at Rs. 269.83 crore with an EBIT of Rs. 8.20 crore during FY19. (PY: Rs. 201.24 crore and Rs. 7.01 crore respectively).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1180.48	1232.70
PBILDT	44.85	53.99
PAT	15.67	22.47
Overall gearing (times)	0.72	0.57
Interest coverage (times)	3.54	4.67

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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
Non-fund-based - ST-BG/LC	-	-	-	20.00	CARE A2+ (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	130.00	CARE A- (Under Credit watch with Negative Implications)

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.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+ (Under Credit watch with Negative Implications)	1)CARE A2+ (Under Credit watch with Negative Implications) (07-May-19)	1)CARE A2+ (15-Nov-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	130.00	CARE A- (Under Credit watch with Negative Implications)	1)CARE A- (Under Credit watch with Negative Implications) (07-May-19)	1)CARE A-; Stable (15-Nov-18)	-	-

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:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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