Kamdhenu Limited

August 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**130.00**	**CARE BBB+ (Under Credit watch with Developing Implications) (Triple B Plus) (Under Credit watch with Developing Implications)**	**Continues to be on credit watch**
Short Term Bank Facilities	**20.00**	**CARE A2 (Under Credit watch with Developing Implications) (A Two) (Under Credit watch with Developing Implications)**	**Continues to be on credit watch**
Total Facilities	**150.00 (Rupees One Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings have been removed from credit watch with negative implications as the company has fully factored in the impact of fire incident in its paints plant, in the book of accounts. However, the ratings continue to be on credit watch with developing implications as the proposed demerger of paints business is still under process. CARE shall evaluate the impact of de-merger of paints business of Kamdhenu Limited into Kamdhenu Colour and Coatings Limited once more clarity emerges on the same.

The ratings continue to derive strength from Kamdhenu's experienced promoters, the company's long track record of operations and its established dealer and franchise network with a diversified customer base. The ratings also factor in the company's steady operational performance albeit reducing total income due to reducing trend in trading sales and more focus on higher margin businesses in manufacturing and franchise segments and its moderate financial risk profile marked by comfortable gearing and moderate debt service indicators. However, the rating strengths are partially off-set by Kamdhenu's exposure to raw material price volatility, elongating operating cycle and highly competitive and cyclic nature of industry.

Rating Sensitivities:

Positive Factors:

- Ability to report a TOI above Rs.700 crore from manufacturing segment and PBILDT margin above 7% on sustained basis.
- Improvement in overall gearing to below 0.50x on sustained basis.

Negative Factors:

- Decline in TOI from manufacturing segment below Rs.500 crore and PBILDT margin below 4%.
- Improvement in overall gearing beyond 1.0x.
- Significant deterioration in the operating cycle and liquidity position.

Detailed description of the key rating drivers:

Key Rating Strengths:

Experienced promoters and long track record of operations of the company: 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 although it is yet to establish itself in the paints business in a meaningful way.

Established dealer and franchise network along with diversified customer base: Kamdhenu is one of the strongest retail brand in TMT sales in India. The company operates a franchise network wherein individual manufacturers are integrated with dealer network of Kamdhenu and provided the technical expertise to manufacture TMT bars under the

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

brand name of Kamdhenu (registered trademark under the name of the company). The company leverages its marketing network to deliver the finished goods from franchise units to the dealers. The widespread dealer network enables the company to reach all across the country. As on March 31, 2020, the company had 75 units under the Kamdhenu Brand, and a network consisting of more than 11500 dealers and distributors. The company has diversified customer base for steel and paints division.

Steady operational performance: The total operating income has declined to Rs.962.60 crore in FY20 (PY: Rs. 1232.70 crore) on account of lower trading sales and also due to overall slowdown in the steel industry during FY20 resulting in lower sales realizations. However, the PBILDT margins improved marginally to 4.68% in FY20 (PY: 4.38%) primarily on account of decrease in trading of steel products which generates lower margin. The PAT margins declined to 0.20% in FY20 (PY: 1.82%) owing to exceptional losses of Rs.25.19 crore in FY20 pertaining to settlement of old tax demands.

Moderate financial risk profile: Overall gearing of the company moderated, however, stood comfortable at 0.77x as on March 31, 2020 (FY19: 0.57x). The marginal deterioration is on account of increase in working capital borrowings. Similarly, Total debt to GCA also deteriorated from 3.42x in FY19 to 21.78x in FY20. The deterioration is because of one time exceptional payment of Rs. 25.19 Crore. Interest coverage ratio of the company declined to 3.77x during FY20 (PY: 4.67x).

Key Rating Weaknesses:
Exposure to raw material price volatility*:* The major raw materials for Kamdhenu are scrap, steel ingots and billets, the prices of which are volatile. The raw material cost constituted 77% of the total cost of sales for FY20 (PY: 79%), thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. Although, the company has been able to partially pass on the volatility in raw material prices to customers, the effect of price fluctuations is still visible in the profitability margins. Further, the franchise model of the company has fixed margins (royalty income per ton) and contributes to significant portion of total PBILDT, helps the company to manage the said risk.

Elongating operating cycle: The operating cycle of the company elongated to 75 days as on March 31, 2020 (PY: 52 days). The increase in working capital cycle was largely on account of increase in collection period to 90 days as on March 31, 2020 (PY: 67 days) due to lower trading sales. Going forward, any further deterioration in operating cycle and resultant adverse impact of the liquidity position shall remain key monitorable.

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. 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. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements.

Prospects
Outlook for the steel industry is negative in the backdrop of muted demand. Although large steel players have been able to raise capacity utilization back to normal levels, but secondary players are still struggling due to ongoing lockdown effects, manpower and raw material shortages. CARE expects recovery in demand post monsoon, led by improvement in manufacturing and automobile production. Demand from construction activity is likely to witness a much slower recovery. The near-term outlook for the paints and coatings industry is looking bleak due to stress in the economy.

Liquidity: Adequate
Kamdhenu has adequate liquidity position with no major term debt repayments obligation and entire cash accruals remains available towards working capital requirements which have however increased in recent times due to elongation in operating cycle. Nonetheless, the average utilization of fund based limits stood moderate at 81% during the past 12 months ended June 2020. The current ratio stood comfortable at 1.39x as on March 31, 2020 (PY: 1.49x). The company had free cash and cash equivalent of Rs. 2.65 crore as on March 31, 2020 (PY: Rs. 9.27 crore).

Analytical approach: Standalone

Applicable Criteria:
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Rating Methodology- Steel Sector]
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[Criteria on Liquidity of Non- financial Sector Entities]

About the Company:
Kamdhenu Limited (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 1,20,000 tonne per annum(tpa) and ingots of 22,500 tpa as on March 31, 2020. Kamdhenu has entered into franchisee arrangement 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 under the brand, Kamdhenu Paints-Colour Dreamz with an installed capacity of 46,000 tpa. The paint manufacturing facility commenced its operations in August 2008 and its plant is located in Chopanki, Rajasthan. Along with the manufacturing facilities, the company also has two wind power plants with rated capacity of 1.25 MW and 0.6 MW at Jaisalmer, Rajasthan as on March 31, 2020.

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1232.70	961.13
PBILDT	53.99	45.37
PAT	22.47	1.88
Overall gearing (times)	0.57	0.77
Interest coverage (times)	4.67	3.72

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 Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	130.00	CARE BBB+ (Under Credit watch with Developing 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 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.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2 (Under Credit watch with Developing Implications)	-	1)CARE A2 (Under Credit watch with Negative Implications) (11-Feb-20) 2)CARE A2+ (Under Credit watch with Negative Implications) (04-Jul-19) 3)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 BBB+ (Under Credit watch with Developing Implications)	-	1)CARE BBB+ (Under Credit watch with Negative Implications) (11-Feb-20) 2)CARE A- (Under Credit watch with Negative Implications) (04-Jul-19) 3)CARE A- (Under Credit watch with Negative Implications) (07-May-19)	1)CARE A-; Stable (15-Nov-18)	-

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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

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