Kamdhenu Limited

November 15, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	130.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	20.00	**CARE A2+ (A Two Plus)**	**Assigned**
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) 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 moderate operating cycle 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 industry.

Going forward, the company's ability to sustain volumes and royalty rates in its franchise model, improve profit margins and maintain a comfortable gearing would remain the 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 also issued share warrants and funds worth Rs 15.00 cr were infused in FY18 (refers to period April 1 to March 31). The company has a long track record of around 24 years.

Strong brand recall with low risk franchise business model: Kamdhenu is one of the strongest brand in retail TMT sales in India with capacity of about 2.5 million tonnes (including franchise units) as on March 31, 2018 and sales of around 2 million tonnes during FY18. Over the years, the company has invested heavily on brand promotion and building dealer network which has equipped it create a franchise business model. The royalty income under franchise model is less susceptible to cyclicality in steel industry as Kamdhenu doesn't bear any risk of price fluctuation or bad debts which is solely borne by the franchisees. As on March 31, 2018 the company had around 50 units for TMT bars 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.1180.48 crore in FY18 (PY: Rs.825.46 crore). The PAT margins also improved to 1.33% in FY18 (PY: 0.98%) owing to decrease in depreciation and interest cost. As a result, the company's gross cash accruals increased to Rs.22.41 crores in FY18 from Rs.14.28 crores in FY17.

Healthy financial risk profile: The overall gearing of the company improved significantly due to infusion of funds and lower outstanding working capital borrowings as on March 31, 2018. On account of lower debt, the total debt to GCA also improved to 4.62x as on March 31, 2018 (PY: 8.43x). The interest coverage of the company also increased to 3.54x in FY18 (PY: 2.41x) on account of decrease in the interest cost.

Moderate operating cycle: The working capital cycle of the company improved to 47 days as on March 31, 2018 (PY: 68 days) on account of decrease in inventory holding period and collection period. The average fund based working capital utilization of the company also stood moderate. The cash and cash equivalents stood healthy at Rs. 7.90 cr as on March 31, 2018 (PY: Rs. 7.94 cr).

Key Rating Weaknesses

Exposure to raw material price volatility: The raw material cost constituted 82% of the total cost of sales for FY18 (PY: 76%), thus exposing the company to the volatility in the prices of raw materials. Kamdhenu cannot pass on the full impact

[1]*Complete 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.

Prospects: CARE expects domestic steel demand to grow at a CAGR of about 6.0% during the period FY18 to FY22. Domestic demand is likely to grow from about 90 million tonnes in FY18 to about 114 million tonnes by FY22. On the supply side, CARE expects an addition of another 20 mn tonnes in the domestic steel capacity during the next 4 years, while the domestic demand during the same period is likely to increase by around 24 mn tonnes.

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
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 72,000 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	825.46	1180.48
PBILDT	33.17	44.85
PAT	8.10	15.67
Overall gearing (times)	1.05	0.72
Interest coverage (times)	2.41	3.54

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

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.*

Analyst Contact:
Name: Mr. Ajay Dhaka
Tel: 011-45333218
Mobile: 8826868795
Email: ajay.dhaka@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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+
Fund-based - LT-Cash Credit	-	-	-	130.00	CARE A-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	130.00	CARE A-; Stable	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691