

Kamdhenu Limited
 February 11, 2020

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Kamdhenu Limited (Kamdhenu) factor in weaker than expected financial performance during 9MFY20 (refers to period: April 01 to December 31) largely due to unexpectedly high one-time tax expense, which is expected to result in substantially lower than envisaged performance for FY20 (refers to period: April 01 to March 31). Also, the ratings 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 stable operational performance, 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.

Rating Sensitivities**Positive:**

- Improvement in PBILDT margin to above 8% on sustained basis

Negative:

- Deterioration in overall gearing to above 1.00x
- Any increase in debt funded capex resulting in moderation in liquidity profile

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.

Net losses reported in 9MFY20: The total operating income of the company declined by 26.44% on Y-o-Y basis during 9MFY20 (refers to period: April 01 to December 31), however, PBILDT margin increased by 96 bps to 5.04% during the

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

same period (PY: 4.09%). The company reported loss at net level of Rs 0.43 cr (PY: profit of Rs 16.59 cr) on account of one-time exceptional item (cash outflow) of Rs 24.39 cr to settle pending legal disputes towards government authorities.

Moderation in financial risk profile: The overall gearing of the company stood comfortable at 0.57x as on March 31, 2019, however the same has moderated to 0.67x as on December 31, 2020 due to net losses reported during 9MFY20. However, the interest coverage of the company remained comfortable albeit lower at 4.24x in 9MFY20 (PY: 4.71x).

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 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 current ratio as on March 31, 2019 stood 1.49x (PY: 1.40x). 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 75% during the trailing twelve months ending January 2020. The free cash and cash equivalents stood at Rs. 2.71 cr as on December 31, 2019. Also, the company does not have any term loan repayment.

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. 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
PBILD	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 BBB+ (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) (04-Jul-19) 2)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 Negative Implications)	1)CARE A- (Under Credit watch with Negative Implications) (04-Jul-19) 2)CARE A- (Under Credit watch with Negative Implications) (07-May-19)	1)CARE A-; Stable (15-Nov-18)	-	-

Annexure-3: NA

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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