Press Release

Kannappan Alloy And Steel Company Private Limited

D-U-N-S® Number: 87-190-6705

February 19, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 16.53 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs. 16.53 crore bank facilities of KANNAPPAN ALLOY AND STEEL COMPANY PRIVATE LIMITED (KASCOL). The outlook is **'Stable'**.

Incorporated in 2014, Kannappan Alloy and Steel Company Private Limited (KASCOL) is engaged in manufacturing of MS billets. The day to day operations are managed by Mr. Thirumalaiswamy Kannappan (Managing Director) along with other Directors. The company has a manufacturing unit at Tirupur in Palladum (Tamil Nadu) with capacity of 30000 tonnes per annum.

Analytical Approach

Acuité has considered consolidated business and financial risk profiles of KASCOL and Kannappan Iron and Steel Company Private Limited together referred as 'KISCOL Group'. The consolidation is mainly on account of the business synergies, strong operational synergies and common management. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

The group is promoted by its Managing Director, Mr. Thirumalaiswamy Kannappan who has experience of over three decades in steel industry. He joined the business very early and started looking after the affairs of the family business along with other family members. He acquired experience of more than 2 decades in the scrap trading business and went on to promote KISCOL in 2005 which is a flagship company of the group. Mrs. Pushpavalli (Director) takes care of day to day activities of overall group, especially finance and administration, and Mr. Kannappan Pushpavalli Thirumalai Raj actively looks after the production, supervision and marketing aspects of the company. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. Acuité believes that the group will continue to benefit from its experienced management and established relationships with customers.

- **Healthy scale of operations**

The KISCOL group has reported healthy revenue growth with compounded annual growth rate (CAGR) of around ~5.00 percent through the last three years ended 31 March, 2018. The company reported healthy revenue growth of ~20.00 percent with operating income of Rs.145.44 crore in FY2018 as against operating income of Rs.121.93 crore in FY2017. The operating margins of the group increased to 11.12 percent in FY2018 from 9.28 percent in FY2017.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by high net worth and moderate debt protection measures and healthy gearing. The net worth is high at Rs.63.15 crore as on 31 March, 2018 as against Rs.51.80 crore as on 31 March, 2017. The improving revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) stood at 1.68 times in FY2018 as against 1.49 times in FY2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.11 times as on 31 March, 2018 as against 0.11 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.33 times in FY2018 as against 1.39 times in FY2017. The gearing stood healthy at 0.85 times as on March 31, 2018 as against 1.03 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.65 times as on 31 March, 2018 as against 2.32 times as on 31 March, 2017. Acuité believes that the financial risk profile of KISCOL group will improve over the medium term on account absence of any major debt funded capital expansion.

Weaknesses

- **Intensive working capital operations**

KISCOL group has intensive working capital operations marked by Gross Current Assets (GCA) of 287 days in FY2018 as against 328 days in FY2017. The inventory and debtor levels stood at 134 and 79 days in FY2018 as against 146 and 113 days in FY2017, respectively. As a result, the average utilisation of bank limits stood at ~95.00 percent in the last six months ending 30 November, 2018. Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of the level of inventory to be maintained and the credit given to its customers.

- **Intense competition and inherent cyclical nature of steel industry**

KISCOL group is exposed to intense competition in steel sector due to the presence of a large number of unorganised players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, KISCOL group's business risk profile is exposed to the inherent cyclicality in these sectors.

Liquidity Position

KISCOL group has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.2.34 to Rs.6.07 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.1.51 to Rs.2.08 crore over the same period. The cash accruals of the group are estimated to remain around Rs.6.00 to 8.50 crore during 2019-21 while its repayment obligation is estimated to be around Rs.0.20 to Rs.0.66 Crore. The group's operations are working capital intensive as marked by high gross current asset (GCA) days of 287 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit in the group remains utilized at ~95 percent during the last 12 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.0.68 crore as on March 31, 2018. The current ratio of the group stands at 1.23 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of improving cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that KISCOL group will maintain a 'Stable' outlook over the medium term from the industry experience of its management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in KISCOL group's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Group

KISCOL group comprises of Kannappan Alloy and Steel Company Private Limited, Kannappan Iron and Steel Company Private Limited, Kannappan Textile Mills Private Limited, Thirumalaiswamy Rolling Mill and Kannappan Wind Farms. The group was established in 1964 by Managing Director, Mr. Thirumalaiswamy Kannappan, Mrs. Pushpavalli and Mr. Kannappan Pushpavalli Thirumalai Raj. The group has presence in textile industry, power generation industry, iron and steel industry and hospitality industry.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	145.44	121.93	130.75
EBITDA	Rs. Cr.	16.18	11.31	11.54
PAT	Rs. Cr.	3.55	3.81	0.79
EBITDA Margin	(%)	11.12	9.28	8.82
PAT Margin	(%)	2.44	3.13	0.60
ROCE	(%)	12.53	8.61	18.70
Total Debt/Tangible Net Worth	Times	0.85	1.03	1.28
PBDIT/Interest	Times	1.68	1.49	1.46
Total Debt/PBDIT	Times	3.23	4.56	5.11
Gross Current Assets (Days)	Days	287	328	357

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.79	ACUITE BB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.24	ACUITE BB+ / Stable

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About Acuité Ratings & Research:

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