

Press Release

Kannappan Alloy And Steel Company Private Limited

September 30, 2020



Rating reaffirmed

Total Bank Facilities Rated	Rs. 16.53 crore
Long Term Rating	ACUITE BB+/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB+** (read as **ACUITE B plus**) and the short term rating of '**ACUITE A4+** (read as **ACUITE A four plus**) on the Rs.16.53 crore bank facilities of Kannappan Alloy and Steel Company Limited. The outlook is '**Stable**'.

Incorporated in 2014, Kannappan Alloy and Steel Company Private Limited (KASCOL) is engaged in the manufacturing of MS billets. The company has a manufacturing unit at Tirupur in Palladam (Tamil Nadu) with a capacity of 24000 tonnes per annum. The day to day operations is managed by Mr. Thirumalaiswamy Kannappan, Mr. Kannappan Pushpavalli Thirumalai Raj and Mrs. Pushpavalli.

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 the textile industry, power generation industry, iron and steel industry and hospitality industry.

Incorporated in 2000, Kannappan Iron and Steel Company Private Limited (KISCOL) is engaged in manufacturing of MS Ingots and TMT bars (8mm to 32mm). The day to day operations are managed by the management of the KASCOL. The company has its manufacturing unit in Pondicherry, Karaikal with MS Ingots' capacity of 20000 tonnes per annum and TMT bar's capacity of 30000 tonnes per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

The group is promoted by its Managing Director, Mr. Thirumalaiswamy Kannappan, who has experience of over three decades in the steel industry. He joined the business very early and started looking after 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) is involved in the day to day activities of the 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 to 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.

• Comfortable financial risk profile

The group's comfortable financial risk profile is marked by healthy net worth, comfortable gearing and modest debt protection metrics. The net worth of the group increased to Rs.83.78 crores as on March 31, 2020(Provisional), compared to Rs.76.41 crores on March 31, 2019 due to retention of profits. The group's gearing stood at 0.61 times as on March 31, 2020(Provisional) as against 0.59 times as on March 31, 2019. The debt of Rs.51.45 crores consists mainly of short term debt of Rs.50.81 crores as on March 31, 2020(Provisional). The moderate debt protection metrics of the group is marked by Interest Coverage Ratio which stood at 1.63 times in FY2020 (provisional) as against 1.83 times in FY2019 and Debt Service Coverage Ratio (DSCR) which stood at 1.42 times in FY2020 (provisional) as against 1.53 times in FY2019. The NCA/TD (Net Cash accruals to total debt) stood at 0.09 times in FY2020 (provisional) as compared to 0.16 times in FY2019. Acuité believes that going forward the financial risk profile of the group will remain comfortable over the medium term, in the absence of any major debt-funded capex plans.

Weaknesses

- **Working capital intensive operations**

The operations of the group have remained working capital intensive marked by high Gross Current Asset (GCA) of 346 days in FY2020 (provisional) as against 248 days in FY2019. The rise in the level of GCA days is due to the increase in the inventory levels during the same period. The inventory days stood high at 188 days in FY2020 (provisional) against 138 days in FY2019. Inventory is maintained around a minimum 3 months in KASCOL. Further, the debtor days also stood high at 110 days in FY2020 (provisional) compared to 63 days in FY2019 due to delay in realization of receivable. The credit period allowed to their customers is about minimum of 60 days. Acuité expects the operations of the group to remain working capital intensive on account of the high inventory levels maintained by the company to cater spot orders and the extended credit period is offered to acquire new customers.

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

KISCOL group is exposed to intense competition in the 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 cyclical nature in these sectors.

Rating Sensitivity

- Improvement of working capital management
- Sustenance of the financial risk profile

Material Covenants

None

Liquidity Profile: Adequate

The group's liquidity is adequate, marked by moderate cash accruals of Rs.4.88 crore in FY2020 (provisional) against no major debt repayments during the same financial year. The net cash accruals are expected to be ranging from Rs.4.69 crores to Rs.5.47 crores over the medium term. The current ratio stood at 1.38 times as on March 31, 2020 as compared to 1.32 times as on March 31, 2019. The unencumbered cash and bank balances stood at Rs.2.74 crores as on March 31, 2020 (Provisional). KASCOL and KISCOL has not availed loan moratorium, but has availed a COVID loan of Rs. 2.55 crores and Rs. 4.30 crores respectively. However, the group's operations are working capital intensive marked by high gross current asset (GCA) days of 346 days in FY2020 (provisional) compared to 248 days in FY2019. The bank limit remains utilized at 94 percent over seven months ended on August, 2020. Acuité believes that the liquidity of the group will remain at an adequate level supported by moderate accruals over the medium term.

Outlook: Stable

Acuité believes that KISCOL group will maintain a 'Stable' outlook over the medium term from the long experience of its management and comfortable financial risk profile. The outlook may be revised to 'Positive' if there is substantial improvement in 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 Rated Entity - Key Financials

	Unit	FY20 (Prov)	FY19 (Actual)
Operating Income	Rs. Cr.	152.16	176.01
PAT	Rs. Cr.	2.69	5.02
PAT Margin	(%)	1.77	2.85
Total Debt/Tangible Net Worth	Times	0.61	0.59
PBDIT/Interest	Times	1.63	1.86

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

CRISIL vide its press release dated 17th April, 2020 has mentioned the rating for KASCOL of 'CRISIL BB-/Stable/A4+Issuer not cooperating'.

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation of companies – <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Feb-2019	Cash credit	Long Term	8.50	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	0.79	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Assigned)
	Proposed bank facility	Long Term	1.24	ACUITE BB+/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore	Ratings/Outlook
Cash credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BB+/Stable (Reaffirmed)
Term Loan	Not Available	Not Available	Not Available	0.79	ACUITE BB+/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Reaffirmed)

Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	1.24	ACUITE BB+/Stable (Reaffirmed)
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About Acuité Ratings & Research:

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