

Press Release

Kanika Investment Limited

D-U-N-S® Number: 86-043-7209

February 26, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 100.00 crore bank facilities of **Kanika Investment Limited** (KIL). The outlook is 'Stable'.

About KIL

KIL incorporated in 1979, as a wholly owned subsidiary of Dalmia Bharat Limited (DBL), was an investment company for the promoters of DBL. It later on started its operations as Non-banking financial company (NBFC-ND) in May 2016. Its initial focus was in various business verticals including dealer financing, unsecured business loans, equipment loans and loans to microfinance institutions but now shifted its focus entirely on dealer financing. KIL has been sold to Shri Nirman Limited (SNL) in Sep, 2017. KIL's shares are currently held by SNL and Keshav Power Limited (KPL). SNL and KPL, both are investment companies of the promoters.

About Dalmia group

DBL is a flagship company of Dalmia group listed on BSE and NSE. The group is led by Mr. Puneet Dalmia and Mr. Gautam Dalmia as Managing directors. It is a business conglomerate with interests in industries including Cement manufacturing, power generation and transmission, sugar manufacturing, refractories. DBL operates the entire business through its two wholly owned subsidiaries namely Dalmia Cement Bharat Limited (DCBL) and Dalmia Power Limited and their step-down subsidiaries. DBL's Net worth and PAT on consolidated basis accounts for Rs. 5535.00 crore and Rs. 291.00 crore respectively. The total revenue of DBL as on March 31, 2018 is Rs. 8828.00 crore of which cement segment accounts for more than 90 per cent.

Analytical Approach

Acuite has adopted a standalone view to assess the credit profile of KIL and also factored in the support from the Dalmia group on account of the significant business and financial linkages with the group. KIL intends to provide finance to dealers of DCBL. On the flip side entire equity of KIL is held by the promoters of Dalmia group through two investment companies SNL and KPL.

Key Rating Drivers

Strengths

- **Benefits derived from association with Dalmia group**

KIL provides dealer financing services to registered cement dealers of Dalmia Cement (Bharat) Limited (DCBL) and its subsidiaries. Typically the financing is targeted at the small to moderate segment of dealers who face challenges in accessing credit from banks and financial institutions. Under this, a tripartite agreement is entered into between KIL, DCBL and the borrowers i.e. dealers. Under this, In the event of default by the borrower KIL shall have the right to recover its dues by adjusting it against the deposit maintained by the borrower with DCBL. This is a short term product for meeting the working capital requirements of the dealers.

Pan India, DCBL has 11 cement plants located in eastern, north-eastern and southern regions of

India. A total of ~10000 cement dealers are registered with DCBL; ~5500 dealers in south and ~4500 dealers in north-east and eastern regions of India. Out of ~4500 dealers registered with DCBL in North-east and eastern regions of India; 1712 dealers are registered with KIL as on December 31, 2018. KIL is currently operating in eastern and north-eastern regions of India comprising of states namely Meghalaya, Assam, Bihar, West Bengal, Jharkhand, Mizoram, Orissa and Tripura as on December 31, 2018. Going forward, KIL has plans to further expand its operations in the south region of India. Hence, KIL has tremendous potential for expanding the scale of its operations.

KIL is currently managed by Mr. Sanjay Nav een Gowan (MD & CEO) hav ing experience of more than two decade in MSME dev elopment and microfinance with SIDBI and Mr. Amit Garg (Director) comes with an experience of more than two decades in the serv ice industry and also was on the board of DBL. KIL is supported by Dalmia group as reflected in the infusion of capital through its group companies SNL and KPL. It is also supported on timely basis by funding from group companies in the form of Inter corporate deposits and issue of letter of support in fav our of some lenders to KIL. The company is adequately capitalized by funding support in the form of debt and equity with the capital adequacy of 29.58% as on September 30, 2018. KIL's growth also depends on the v olume growth and operating performance of DCBL. In case of occurrence of any downgrade ev ent in DCBL's operating performance will hav e an impact on its dealers which in turn will impact KIL.

Acuité believes KIL will continue to benefit from the association with DCBL, a leading cement manufacturer with a dominant presence in south, east and north-east regions of India.

Weaknesses

• Limited track record of operations

KIL has started its operations in May 2016 and has limited track record of its operations with the loan book of Rs. 59.24 crore as on September 31, 2018 as against Rs. 53.59 crore as on March 31, 2018. Of the total loan book of Rs. 59.24 crore; Rs. 41.28 crore is cement dealer financing and Rs. 17.96 crore comprises of business loans and equipment loans. The company has reported gross NPA of 4.50 percent as on September 30, 2018 which are mainly on account of legacy loans pertaining to business loans which were disbursed prior to FY2018. KIL has yet to demonstrate scalability in operations while maintaining its asset quality and profitability.

The company's profitability has declined significantly in FY2018 as reflected in return on av erage assets (RoAA) to (2.15) percent for FY2018 from 5.04 percent in the prev ious year. The NIMs contracted to 6.52% in FY18 from 19.98% during FY17. The company has reported PAT loss of Rs. 1.08 crore as on March 31, 2018 as against PAT of Rs. 1.23 crore as on March 31, 2017. This is mainly due to increase in operating expenses as well as increase in borrowings resulted in high interest expenses.

Acuité believ es the ability to scale up its loan book while keeping its operating expenses and credit cost under check will remain key monitorables.

Since interest rate charged by KIL is around 18% p.a. which is on the higher side, the likelihood of borrowers to shift to cheaper options is higher. The emergence of banks/ financial institutions with differentiated product offerings to cater to these segments also possesses competitiv e challenges for KIL.

Acuité believ es the ability to maintain prudent product mix and moderate operating expenses while scaling up its operations will be a key determinant of KIL's credit profile in near to medium term.

Liquidity Position

The company's liquidity profile is supported by adequate buffers in the working capital limits, the av erage utilization for the past six months ~81.47 per cent ended December 2018. The company had cash and bank balances and fixed deposits to the extent of Rs. 0.96 crore as on September 30, 2018 which is likely to support the liquidity position of KIL for near to medium term.

Outlook: Stable

Acuite believes that KIL will maintain a 'Stable' outlook over the medium term with financial and operational support of Dalmia group. The outlook may be revised to 'Positive' in case of significant growth in the loan book while maintaining asset quality, improvement in profitability and adequate capitalization. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY15 (Actual)
Total Assets	Rs. Cr.	53.59	40.04	0.02
Total Income (Net of Interest expense)	Rs. Cr.	2.96	0.71	0.00
PAT	Rs. Cr.	(1.08)	1.23	0.70
Net worth	Rs. Cr.	5.23	6.32	5.09
Return on Average Assets (RoAA)	(%)	(2.15)	5.04	27.45
Return on Average Net worth (RoNW)	(%)	(18.75)	21.59	27.61
Total Debt/Tangible Net Worth	Times	7.74	5.05	0.00
Gross NPA	(%)	2.84	0.00	0.00
Net NPA	(%)	2.36	0.00	0.00

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

India Ratings and Research vide its press release dated 02 January, 2019 had migrated the rating of Kanika Investment Limited to 'IND BBB- (ISSUER NOT COOPERATING)' from 'IND BBB-/ Stable' on account of lack of adequate information required for monitoring of ratings.

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>
- Non - Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.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	60.00	ACUITE BBB / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB / Stable (Assigned)

Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB / Stable (Assigned)
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About Acuité Ratings & Research:

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