

Press Release

Kanika Investment Limited

April 26, 2021

Rating Upgraded & Withdrawn



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 100.00 Cr. |
| Long Term Rating | ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BBB/ Stable; Withdrawn) |

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 100.00 Cr. bank facilities and withdrawn the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the bank facilities of Rs.15.00 Cr. of KANIKA INVESTMENT LIMITED (KIL). The outlook is '**Stable**'. This rating is being withdrawn on account of the request received by the client along with No Objection Certificate received from the bank as per Acuite's policy.

The upgrade draws comfort from strong parentage (KIL is wholly owned subsidiary of Ultimate parent Dalmia Bharat Ltd. and strategic importance of KIL to Dalmia Group). KIL's credit profile draws strength from the group synergies in the form of business, capital and management support. KIL is the captive NBFC arm of Dalmia Group providing dealer financing services to registered cement dealers of Dalmia Cement (Bharat) Limited (DCBL) and its subsidiaries. Given the business linkages, the parent provides support to KIL in the form of regular capital infusions, in the form of both equity and debt. KIL had not utilized its sanctioned limits in last 9 months ended in December, 2020, as ICDs from group stood at Rs.22.00 Cr. as on December 31, 2020. The upgrade also takes into account breakeven in KIL's operations; KIL started making profits since November, 2020 on the account of rationalization of expenses, comfortable capitalisation levels and low gearing. KIL's Capital Adequacy Ratio stood robust at 60.86% as on December 31, 2020 as against 27.32% as March 31, 2020. Further, KIL operates as a strategic arm of the Dalmia Group which ensures secured recovery mechanism translating into healthy collection efficiency at 90% as on December 31, 2020.

The rating is, however, constrained due to modest and declining scale of operations marked by AUM of Rs.42.41 Cr. as on December 31, 2020 as against Rs.60.14 Cr. as on March 31, 2020 on account of Covid-19 impact. GNPA levels increased to 9.62% as on December 31, 2020 from 6.80% as on March 31, 2020. KIL has made provisions of Rs.0.88 Cr. as on December 31, 2020. Going forward, continued parent support as well as the ability of company to scale up its loan book while maintaining asset quality and operating metrics will be key monitorables.

About KIL

KIL was incorporated in 1979, as an investment company for the promoters of DBL. It is wholly owned subsidiary of Dalmia Bharat Limited (DBL). Subsequently in May 2016, it started its operations as Non-banking financial company (NBFC-ND).

Initially, KIL 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 and 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. For FY2020, DBL's revenue and PAT on consolidated basis accounts for Rs. 9674.00 crore (cement accounts for 92%) and Rs. 238.00 crore respectively. The net worth of DBL as on March 31, 2020 is Rs. 6758.00 crore.

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 provides working capital finance to dealers of DCBL. Further entire equity of KIL is held by the promoters of Dalmia group through two investment companies SNL and KPL.

Key Rating Drivers

Strengths

- **Strategic importance of KIL to Dalmia group along with experience management**

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. 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.

DCBL has 12 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; 1362 dealers are registered with KIL as on December 31, 2020. KIL is currently operating in eastern and north-eastern regions of India comprising of states namely Bihar, Jharkhand, Orissa, Meghalaya, Assam, West Bengal, Mizoram, and Tripura as on December 31, 2020. Going forward, KIL has plans to further expand its operations in the south region. Hence, KIL has tremendous potential for expanding the scale of its operations.

KIL is currently managed by Mr. Sanjay Naveen Gowan (MD & CEO) having experience of more than two decades in MSME development and microfinance with SIDBI and Mr. Amit Garg (Director) comes with an experience of more than two decades in the service industry and also was on the board of DBL. KIL is supported by Dalmia group as reflected in infusion of capital through its group companies SNL and KPL.

KIL receives regular funding support from group companies in the form of Inter corporate deposits and comfort letter from parent in the favour of its lenders. The company is adequately capitalized and reported capital adequacy ratio of 60.86% as on December 31, 2020. Given the business linkages, KIL's performance is closely linked to the volume growth and operating performance of DCBL. In case of adverse impact in DCBL's operating performance, the same will have an impact on its dealers which in turn will impact KIL.

Acuite 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

- **Asset quality & limited track record of operations**

KIL has started its operations in May 2016 and has limited track record of operations with the loan book of Rs. 42.41 crore as on December 31, 2020. Of the total loan portfolio as on December 31, 2020, Rs. 34.20 crore is towards cement dealer financing; Rs. 8.16 crore (includes off book) is towards business loans and equipment loans. The company has reported gross NPA of 9.62 percent as on December 31, 2020 as against 6.80 percent as on March 31, 2020, which are mainly on account of legacy loans pertaining to business loans which were disbursed prior to FY2019. However, GNPA witnessed improvement on quarterly basis, it stood at 11.10 percent as on September 30, 2020 and improved to 9.62% as on December 31, 2020.

The company was incurring losses until October, 2020 as reflected in return on average assets (RoAA) stood at (2.32) for 9M-FY2021 as against (2.24) percent for FY2020 and against (2.97) percent for FY2019.

However, The NIM improved marginally to 4.53% for 9M-FY2021 from 4.28% in FY2019. Losses have

declined to Rs.0.94 Cr. in 9M-FY2021 from Rs.1.45 Cr. in FY2020, as KIL has started incurring profits since November, 2020. This is mainly due to rationalizing operating expenses as well as decline in interest expenses.

Acuite believes the ability to scale up its loan book while maintaining its asset quality and profitability will remain key monitorables.

Acuite believes 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: Adequate

The liquidity position of KIL is adequate marked by adequate buffers in terms of unutilized working capital limits last 9 months ended in December, 2020. The company had cash and bank balances to the extent of Rs. 5.10 crore as on December 31, 2020.

Key rating sensitivities

- Continued support from Dalmia Group
- Scaling up of operations & profitability

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 portfolio 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 | FY20 (Actual) | FY19 (Actual) | FY18 (Actual) |
|--|---------|---------------|---------------|---------------|
| Total Assets | Rs. Cr. | 60.09 | 69.74 | 53.59 |
| Total Income (Net of Interest expense) | Rs. Cr. | 2.68 | 2.45 | 2.96 |
| PAT | Rs. Cr. | (1.45) | (1.88) | (1.08) |
| Net worth | Rs. Cr. | 9.10 | 8.56 | 5.23 |
| Return on Average Assets (RoAA) | (%) | (2.24) | (2.97) | (2.15) |
| Return on Average Net worth (RoNW) | (%) | (16.46) | (27.23) | (18.75) |
| Total Debt/Tangible Net Worth | Times | 5.16 | 3.62 | 7.74 |
| Gross NPA | (%) | 6.80 | 5.92 | 2.84 |
| Net NPA | (%) | 5.09 | 4.62 | 2.36 |

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.

Material Covenants

None

Any other information

None

Applicable Criteria

- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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 |
|-------------|----------------------------------|-----------|------------------|----------------------------------|
| 03-Feb-2020 | Cash Credit | Long Term | 60.00 | ACUITE BBB / Stable (Reaffirmed) |
| | Cash Credit | Long Term | 10.00 | ACUITE BBB / Stable (Reaffirmed) |
| | Term loans | Long Term | 10.00 | ACUITE BBB / Stable (Reaffirmed) |
| | Term loans | Long Term | 5.00 | ACUITE BBB / Stable (Reaffirmed) |
| | Proposed Long Term Bank Facility | Long Term | 15.00 | ACUITE BBB / Stable (Reaffirmed) |
| 26-Feb-2019 | Cash Credit | Long Term | 60.00 | ACUITE BBB / Stable (Assigned) |
| | Cash Credit | Long Term | 10.00 | ACUITE BBB / Stable (Assigned) |
| | Term loans | Long Term | 10.00 | ACUITE BBB / Stable (Assigned) |
| | Term loans | Long Term | 5.00 | ACUITE BBB / Stable (Assigned) |
| | Proposed Long Term Bank Facility | Long Term | 15.00 | ACUITE BBB / Stable (Assigned) |

*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 (Upgraded from ACUITE BBB/ Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BBB+ / Withdrawn |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BBB+ / Withdrawn |
| Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 30.00 | ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable) |

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About Acuité Ratings & Research:

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