

Press Release

Kanika Investment Limited

July 26, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 100.00 Cr. bank facilities of KANIKA INVESTMENT LIMITED (KIL). The outlook is '**Stable**'.

The rating is based on the significant sustainability 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.

The rating also takes into account improvement in its asset's quality, disbursement volumes and financial performance in FY2022. The on-time portfolio has improved from ~87 percent as on March 31, 2021 to ~93 percent as on March 31, 2022. Acuite has observed traction in disbursements and subsequent rise in on- book portfolio from Rs.42.46 crore as on March 31, 2021, to Rs.59.78 crore as on March 31, 2022. The company continues to derive strength from its experienced management team and Board of directors. The rating also derives strength from the adequate capitalization levels, moderate resources raising ability. The Capital Adequacy Ratio (CAR) stood comfortable at 37.23 per cent as on March 31, 2022 (Prov.), as against 48.54 percent as on March 31, 2021. The rating is however, constrained by modest scale of operations, geographic concentration and subdued earning profile. The company reported losses of Rs. (0.36) Cr as on March 31, 2022 (Prov.) as against of Rs (0.91) Cr as on March 31, 2021.

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 monitorable.

About the company

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 Nonbanking 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 FY2022, DBL's revenue and PAT on consolidated basis accounts for Rs. 11,441.00 crore and Rs. 1,173.00 crore respectively. The net worth of DBL as on March 31, 2022 is Rs. 12313.00 crore.

Analytical Approach

Acuité 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

Strength

- **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 13 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; 1600 to 1700 dealers are registered with KIL as on March 31, 2022. 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 March 31, 2022. 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. 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 37.23% as on March 31, 2022. 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.

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.

Weakness

• 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. 61.85 crore as on March 31, 2022. Of the total loan portfolio as on March 31, 2022, Rs. 58.25 crore is towards cement dealer financing; Rs. 3.6 crore is towards business loans and equipment loans. The company has reported gross NPA of 6.37 percent as on March 31, 2022 as against 12.13 percent as on March 31, 2022, which are mainly on account of legacy loans pertaining to business loans which were disbursed prior to FY2019.

The company is incurring losses as reflected in return on average assets (RoAA) stood at (0.64) for FY2022 (Prov.) as against (1.69) percent for FY2021 and against (2.24) percent for FY2020.

However, The NIM improved marginally to 5.99 percent for FY2022 (Prov.) from 5.40 percent in FY2021. Losses have declined to Rs.0.36 Cr. (Prov.) in FY2022 from Rs.0.91 Cr. in FY2021. This is mainly due to rationalizing operating expenses as well as increase in interest income.

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

Rating Sensitivity

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

Material Covenants

None

Liquidity Position

Adequate

The liquidity position of KIL is adequate as the company avails cash credit facility of Rs. 35 from Bandhan Bank and Indusind Bank. Company has unencumbered cash and bank balance of Rs. 0.02 crore as on March 31, 2022. The company has also received capital support from Akhyar Estates in the form of ICD, of Rs.5 Crore in FY 2022.

Outlook: Stable

Acuité 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.

Key Financials - Standalone / Originator

	Unit	FY21	FY20 (Actual)
Total Assets	Rs. Cr.	47.20	60.09
Total Income (Net of Interest expense)	Rs. Cr.	4.45	4.69
PAT	Rs. Cr.	(0.91)	(1.45)
Net worth	Rs. Cr.	8.19	9.10
Return on Average Assets (RoAA)	(%)	(1.69)	(2.24)
Return on Average Net worth (RoNW)	(%)	(10.50)	(16.46)
Total Debt/Tangible Net Worth	Times	2.44	5.16
Gross NPA	(%)	12.13	6.80
Net NPA	(%)	3.58	5.09

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- 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>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Apr 2021	Term Loan	Long Term	10.00	ACUITE BBB+ (Withdrawn)
	Proposed Bank Facility	Long Term	30.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	10.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	60.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	5.00	ACUITE BBB+ (Withdrawn)
03 Feb 2020	Cash Credit	Long Term	60.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
26 Feb 2019	Term Loan	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	60.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB+ Stable Reaffirmed
Bandhan Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE BBB+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Shashank Sinha Management Trainee-Rating Operations Tel: 022-49294065 shashank.sinha@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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