

## Press Release

### Kalinga Commercial Corporation Limited

July 26, 2019

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.98.84 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A3

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.98.84 crore bank facilities of Kalinga Commercial Corporation Limited (KCC). The outlook is '**Stable**'.

The Orissa based, Kalinga Commercial Corporation started its business in the year 1991 as proprietorship concern by Mr. Soumya Ranjan Samal. Later in FY2009-10, it was reconstituted into limited company. The company is engaged in iron ore raising contracts and transportation services. The company undertakes contracts on behalf of PSUs and government entities like Orissa Mining Corporation (OMC), Steel Authority of India (SAIL), and National Aluminium Company Limited (NALCO) among others.

### Analytical Approach

Acuite has considered standalone business and financial risk profile of the company to arrive at the rating.

### Key Rating Drivers

#### Strengths

#### • Established presence of the promoters in the Mining industry

The operations of KCC are managed by promoter Mr. Soumya Ranjan Samal along with Mr. Manoj Ranjan Samal, Mrs. Archana Samal, who possess more than three decades of experience in the mining industry. The company has on its board Mr. Bijay Kumar Ota and Mr. Ramesh Chandra Mohanty as independent directors who have experience of more than 5 decades in the mining industry. The company has long presence in this sector and has established healthy relationship with the customers like Orissa Mining Corporation for more than a decade.

Acuite believes that the company will continue to benefit from its promoters' extensive industry experience and healthy relationship with customers over the long term.

#### • Healthy operating performance

KCC entered into restructuring of its debt from the lenders in March 2017. The company has showed consistent and improving operating performance post restructuring. The company has booked net turnover of Rs.409.83 crore in FY2019 (Provisional) as compared to Rs.313.28 crore in FY2018 and Rs.287.67 crore in FY2017 while maintaining its EBITDA margins over the same period. KCC has strong order book of ~Rs.1322.39 crore as on March 31, 2019 executable over the next four to five years. Further, in April 2019, KCC has received Letter of Award (LoA) from Nilanchal Ispat Nigam Limited (NINL) worth Rs.2025 crore executable over 25 years which has improved its order book to Rs.3347.39 crore, providing strong revenue visibility over the long term.

Acuite believes that KCC will be able to maintain healthy operational track record on account of robust order book position.

#### • Moderate financial risk profile:

KCC has moderate financial risk profile marked by net worth of Rs.139.81 crore as on March 31, 2019 (Provisional) as compared to Rs.116.70 crore as on March 31, 2018. The Debt Service Coverage Ratio (DSCR) stood moderate at 1.66 times in FY2019 (Provisional) as compared to 2.05 times in FY18. The total debt of Rs.156.29 crore as on March 31, 2019 (Provisional) includes long term borrowing of

Rs.137.36 crore and short term borrowing of Rs.18.93 crore. The total outstanding liabilities to total tangible net worth increased to 1.51 times as on March 31, 2019 (provisional) as compared to 1.92 times as on March 31, 2018 primarily due to decline in short term borrowing in FY2019. The interest coverage ratio improved to 5.61 times in FY2019 (provisional) as compared to 4.65 times in FY18 due to improvement in operating profit margins in FY2019. The overall financial risk profile remains constrained due to higher capex requirement. The credit metrics are expected to improve gradually with quick turnaround of capex into revenues. The company will be incurring capital expenditure of ~Rs.60.00 crore in FY2020 for the new contract of NINL. This capex will be funded by loan from bank of ~Rs.25.00 crore and rest from internal accruals and unsecured loan from promoters. Further, KCC is also required to furnish performance guarantee of ~Rs.75.00 crore for the same. Acuite believes that higher than expected debt funded capex or lower utilisation of installed capacity will be critical to the credit risk profile of the KCC.

## Weaknesses

- **Tender based nature of operation along with highly competitive and fragmented industry:**

Mining industry is marked by presence of many small and large players. KCC undertakes tender based operations which pose a risk of uncertainty in the awarding of tenders as it faces competition from the other players while bidding for tenders.

- **Highly regulated industry**

The entire business of KCC is concentrated in Orissa region, the largest iron ore producing state in India. The mining industry is highly regulated by the government ranging from licensing, extraction quantum, and export, amongst other. There have been continuous regulatory changes in terms of state governments' policies towards mining activity. Any adverse change in the regulations can affect its business risk profile, and consequently, affect credit risk profile of the company.

## Liquidity Position

KCC has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company has maturing debt obligations of Rs.48.84 crore in FY2020 against which company is expected to generate cash accruals of ~Rs.65-70 crore. The average working capital limit utilization over the last twelve-month period ended March 2019 remained ~70-80 percent. KCC maintained unencumbered cash and bank balances of Rs.1.51 crore as on March 31, 2019. The current ratio stands moderate at 1.09 times as on March 31, 2019.

Acuite believes that the liquidity is likely to remain adequate over the medium term on account of healthy cash accrual.

## Outlook: Stable

Acuite believes that KCC's business risk profile is expected remain 'Stable' on the back of extensive promoters' experience in the mining industry and healthy order book position. The outlook may be revised to 'Positive' in case of higher than expected improvement in accruals and debt protection metrics. Further, the outlook may be revised to 'Negative' in case of sharp decline in accruals, elongation of working capital cycle or deterioration in debt protection metrics.

## About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	409.85	313.28	287.67
EBITDA	Rs. Cr.	92.88	67.45	64.32
PAT	Rs. Cr.	23.73	11.31	10.64
EBITDA Margin	(%)	22.66	21.53	22.36
PAT Margin	(%)	5.79	3.61	3.70
ROCE	(%)	18.53	13.73	16.82
Total Debt/Tangible Net Worth	Times	1.12	1.28	0.97
PBDIT/Interest	Times	5.70	4.65	2.89
Total Debt/PBDIT	Times	1.66	2.14	1.29
Gross Current Assets (Days)	Days	95	136	146

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

None.

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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	30.28	ACUITE BBB- /Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	15.85	ACUITE BBB- /Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	37.71	ACUITE BBB- /Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3

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### About Acuité Ratings & Research:

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