

Press Release

Kalinga Commercial Corporation Limited

August 28, 2020



Rating Upgrade & Assigned

Total Bank Facilities Rated*	Rs. 170.00 Cr. (Enhanced from Rs.98.84 crore)
Long Term Rating	ACUITE BBB/Stable (Upgraded & Assigned)
Short Term Rating	ACUITE A3+ (Upgraded & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded and assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.170.00 crore of bank facilities of Kalinga Commercial Corporation Limited. The outlook is '**Stable**'.

The rating upgrade is driven by a significant improvement in the business risk profile of the company backed by substantial growth in revenues while sustaining their healthy profitability margins. The rating upgrade also takes into account the improvement in their networth levels and capital structure. The revenue of the company has improved to Rs.608.18 crore in FY2020 as compared to Rs.409.85 crore in the previous year. Acuité believes that the company will sustain the growth momentum in their topline levels on account of healthy unexecuted order book of Rs.8228.55 crore as on 31st Mar 2020. The operating profitability margin of the company has improved and stood healthy at 23.01 per cent in FY2020 as compared to 22.66 per cent in the previous year. The net profitability margin has also increased and stood comfortable at 7.95 per cent in FY2020 as compared to 5.79 per cent in the previous year.

Orissa based, Kalinga Commercial Corporation established in the year 1991 as a proprietorship firm by Mr. Soumya Ranjan Samal. Later in FY2009-10, it was reconstituted into a limited company. It is an ISO 9001:2008 company. The company is engaged in the extraction of iron ore and providing logistic services. The company undertakes contracts on behalf of PSU's and government entities like Orissa Mining Corporation (OMC), Steel Authority India Limited (SAIL), Nilachal Ispat Nigam Ltd. among others. Currently, the company is managed by Mr. Soumya Ranjan Samal along with his brother Mr. Manoj Ranjan Samal and other directors.

Analytical Approach:

Acuité has considered the standalone business and financial risk profile of KCCL while arriving at the rating.

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

The promoter of the company Mr. Soumya Ranjan Samal along with Mr. Manoj Ranjan Samal, Mrs. Archana Samal, possesses more than three decades of experience in the mining industry. The other directors Mr. Bijay Kumar Otta and Mr. Ramesh Chandra Mohanty, also have experience of more than five decades in the mining industry through other organisation. The company has a longstanding presence in this sector and has established a healthy relationship with the customers such as Odisha Mining Corporation Limited for more than a decade. Acuité believes that the company will continue to benefit from its promoters' extensive industry experience and healthy relationship with customers over the medium term.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, low gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.201.20 crore in FY 2020 as compared to Rs 141.81 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit and infusion of capital of Rs.3.57 crore during FY2020. Acuite has considered Rs.2.43 crore of unsecured loan as quasi capital as the same is subordinated to the bank debt. The gearing of the company stood low at 0.95 times as on March 31, 2020 when compared to 1.10 times as on March 31, 2019. This improvement in gearing

is mainly on account of repayment of long term debt and improvement in networth of the company during the period. Interest coverage ratio (ICR) is healthy and stood at 4.36 times in FY2020 as against 5.70 times in FY 2019. The debt service coverage ratio (DSCR) of the company is also stood healthy at 1.52 times in FY2020 as compared to 1.67 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.48 times in FY2020 as compared to 0.42 times in the previous year. However, the company entered into a restructuring of its debt from lenders in March 2017. Going forward, Acuite believes the financial risk profile of the company will remain healthy backed by no major debt-funded capex plan over the medium term and steady net cash accruals.

Healthy order book position

The company has an unexecuted order book of Rs. 8228.55 crore of order for mining service for excavation of iron ore as on 31st March 2020 from mainly from The Odisha Mining Corporation Limited, Steel Authority India Limited, Nilachal Ispat Nigam Ltd among others. Acuité believes, this healthy order book of the company provides healthy revenue visibility over the long term.

Weaknesses

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

Mining industry is marked by the 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, etc. There have been continuous regulatory changes in terms of state government's policies towards mining activity. Any adverse change in the regulations can affect its business risk profile, and consequently, affect the credit risk profile of the company.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Timely order book execution

Material Covenant

None

Liquidity Position: Adequate

Acuité believes that the company has adequate liquidity marked by healthy net cash accruals in FY2020 of Rs.91.40 crore as against Rs.67.64 crore of yearly debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs. 119.67 crore to Rs. 177.41 crore during 2021-23 against Rs.68.96 crore repayment obligations in FY2021, Rs.43.65 crore in FY2022 and Rs.25.00 crore in FY2023 respectively. The Gross Current Asset (GCA) days stood moderate at 103 days in FY2020. The bank limit is 80 per cent utilised by the company for the last six months ended July 2020. The current ratio of the company stood at 1.11 times as on March 31, 2020. The liquidity of the company is also supported by the unencumbered cash balance of Rs.9.96 crore in FY2020. Moreover, the company has also been sanctioned COVID Emergency Credit Line of Rs.3.90 crore. The said loans are to be repaid over a period of 2 years, including six months of a moratorium. Hence, Acuité believes that this short term funding will further ease the liquidity position of the company. However, the company has not availed of loan moratorium till the end of August 2020. Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes that KCC's business risk profile is expected to remain 'Stable' on the back of extensive promoter's 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 a sharp decline in accruals, deterioration in profitability margin or deterioration in debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	608.18	409.85
PAT	Rs. Cr.	48.34	23.74
PAT Margin	(%)	7.95	5.79
Total Debt/Tangible Net Worth	Times	0.95	1.10
PBDIT/Interest	Times	4.36	5.70

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-52.htm>
- Service Sector – <https://www.acuite.in/view-rating-criteria-50.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
26-July-2019	Cash Credit	Long Term	30.28	ACUITE BBB-/Stable (Assigned)
	Working Capital Term Loan	Long Term	15.85	ACUITE BBB-/Stable (Assigned)
	Funded Interest Term Loan	Long Term	37.71	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (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	39.00	ACUITE BBB/Stable (Upgraded)
Working Capital Term Loan	31 July 2017	Not Applicable	31 July 2024	10.72	ACUITE BBB/Stable (Upgraded)
Funded Interest Term Loan	31 July 2017	Not Applicable	31 July 2022	20.70	ACUITE BBB/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	March 2021	26.00	ACUITE BBB/Stable (Assigned)

Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	8.58	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	39.00	ACUITE A3+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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