

Press Release

Kalinga Commercial Corporation Limited

September 27, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	105.00	ACUITE A- Stable Upgraded	-
Bank Loan Ratings	65.00	-	ACUITE A2+ Upgraded
Total Outstanding Quantum (Rs. Cr)	170.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from 'ACUITE BBB+' (read as ACUITE triple B plus) and the short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from 'ACUITE A2' (read as ACUITE A two) to the Rs.170.00 Cr of bank facilities of Kalinga Commercial Corporation Limited. The outlook is '**Stable**'.

The rating upgrade is driven by the significant growth in the turnover levels of the company along with sustenance of healthy profit margins. The rating upgrade also factors in the comfortable financial risk profile of the company and a superior liquidity profile.

The rating continues to consider the established track record of operation and long-standing experience of the promoters in the mining industry, healthy relationship with customers and strong execution capabilities. The rating also factors the strong un-executed order book of the company. However, these strengths are partially offset by the moderate working capital management and highly regulated, competitive, and fragmented industry.

About the Company

Odisha based; Kalinga Commercial Corporation Limited was established in the year 1991 as a proprietorship firm by Mr. Soumya Ranjan Samal. Later in FY2010, it was reconstituted into a limited company. It is an ISO 9001:2008 company, and 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), TATA Steel Mining 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

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

Key Rating Drivers

Strengths

Experienced management and long track record of operation

The promoter of the company Mr. Soumya Ranjan Samal along with Mr. Manoj Ranjan Samal, Mrs. Archana Samal, with 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. 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. Acuité believes that the company will continue to benefit from its promoters' extensive industry experience and healthy relationship with customers over the long term.

Increasing revenue coupled with healthy profitability margin

The revenue of the company has increased significantly to Rs.1146.33 crore in FY2022 (Prov.) as compared to Rs.781.77 crore in the previous year. This improvement in revenue is mainly on account of increase in work order execution during the period along with strong execution capability of the company. The company has booked Rs.616.77 crore till 31st August 2022 (Prov.). Acuité believes the revenue of the company will continue to increase going forward based on the healthy unexecuted order book of Rs.16347.01 crore in hand as on 15th August 2022 imparting revenue visibility over the medium to long term.

The operating profitability margin of the company stood healthy at 21.71 per cent in FY2022 (Prov.) as compared to 22.72 per cent in the previous year. However, this slight contraction in operating profitability margin is on account of increase in the raw material price during the period. Acuité believes that the profitability margin of the company will sustain at the same level backed by in-built price escalation clause that provides cushion for covering the increased input cost. This helps the company from any large variation in the raw material prices, thus protecting the operating margins to a certain extent. The net profitability margin of the company stood healthy at 9.91 per cent in FY2022 (Prov.) as compared to 9.74 per cent in the previous year. Acuité believes the profitability margin of the company will be sustained at healthy levels over the medium term on account of availability of adequate price escalation clause with the counter party.

Strong financial risk profile

The financial risk profile of the company is marked by strong net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood strong at Rs.395.55 crore in FY 2022 (Prov.) as compared to Rs. 274.89 crore in FY2021. This improvement in networth is on account of retention of profit by the company during the period. The gearing of the company stood comfortable at 0.79 times as on March 31, 2022 (Prov.) when compared to 0.94 times as on March 31, 2021. Interest coverage ratio (ICR) of the company stood strong at 9.41 times in FY2022 (Prov.) as against 7.28 times in FY 2021. The debt service coverage ratio (DSCR) of the company stood comfortable at 1.66 times in FY2022 (Prov.) as compared to 1.67 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.59 times in FY2022 (Prov.) as compared to 0.50 times in FY2021. Going forward, Acuité believes the financial risk profile of the company will improve on account of increase in net cash accruals and no major debt funded capex plan over the near term.

Moderate working capital management

The moderate working capital management of the company is marked by comfortable gross current asset days of 110 days in FY2022 (Prov.) and 105 days in the previous year. The inventory days of the company has been comfortable at 14 days in FY2022 (Prov.) as compared to 19 days in the previous year. The debtor days of the company is also comfortable at 58 days in FY2022 (Prov.) as compared to 49 days in the previous year. Further, the GCA days is also emanates from the high other current asset of Rs.87.81 cr. in FY 2022 (Prov.), which mainly consists of EMD deposits, advance to suppliers, balance with statutory

authorities among others.

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.

Rating Sensitivities

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

Material covenants

None

Liquidity Position

Strong

The company has strong liquidity marked by healthy net cash accruals of Rs.185.74 crore as against Rs.101.18 crore long term debt obligations in FY2022 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 219.13 crore to Rs. 256.81 crore during 2023-24 as against Rs. 106.09 crore of long term debt obligations FY2023 and Rs.106.13 crore in FY2024 respectively. The moderate working capital management of the company is marked by comfortable Gross Current Asset (GCA) days of 110 days in FY2022 (Prov.). The bank limit of the company has been ~81 percent utilized during the last six months ended in July 2022. However, the current ratio of the company stood low at 1.19 times in FY2022 (Prov.). 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 business risk profile. 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	1146.33	781.77
PAT	Rs. Cr.	113.63	76.12
PAT Margin	(%)	9.91	9.74
Total Debt/Tangible Net Worth	Times	0.79	0.94
PBDIT/Interest	Times	9.41	7.28

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Nov 2021	Term Loan	Long Term	9.36	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	39.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	39.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Bank Facility	Long Term	21.42	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	26.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Working Capital Term Loan	Long Term	7.30	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Working Capital Demand Loan	Long Term	1.92	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	26.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
28 Aug 2020	Bank Guarantee	Short Term	39.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	20.70	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	26.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Long Term	8.58	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	26.00	ACUITE A3+ (Assigned)
	Working Capital Term Loan	Long Term	10.72	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)

	Cash Credit	Long Term	39.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
26 Jul 2019	Term Loan	Long Term	37.71	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short term	15.00	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	15.85	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	30.28	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
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	39.00	ACUITE A2+ Upgraded
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A2+ Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	39.00	ACUITE A- Stable Upgraded
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A- Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	21.42	ACUITE A- Stable Upgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	9.36	ACUITE A- Stable Upgraded
State Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	1.92	ACUITE A- Stable Upgraded
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	7.30	ACUITE A- Stable Upgraded

Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuите.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuите.in
Abhishek Dey Senior Analyst-Rating Operations Tel: 022-49294065 abhishek.dey@acuите.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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