

Press Release

Kakda Rolling Mills

August 10, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.14.74 Cr.
Long Term Rating	ACUITE B-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) on the Rs.14.74 crore bank facilities of Kakda Rolling Mills (KRM). The outlook is '**Stable**'.

Bhopal based Kakda Rolling Mills (KRM) was set up in the year 1968 as a proprietorship concern by Mr. Deep Chandra Goel and later was converted into a partnership firm by Mr. Narendra K Goel and his three sons. The firm is primarily engaged in manufacturing of TMT bars and has its manufacturing facility located in Bhopal, Madhya Pradesh.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KRM to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The management of the firm possesses extensive experience in the steel industry. The current partner, Mr. Narendra Kumar Goel has over two decades of experience in the aforementioned industry. The extensive experience of the promoters in the TMT bars manufacturing business has enabled the company to forge healthy relationships with customers and suppliers.

Acuité believes that the firm will continue to benefit from its experienced management and established relationships with customers.

Weaknesses

- **Moderate financial risk profile**

KRM's financial risk profile is moderately marked by its moderate net worth, high gearing levels and moderate debt protection measures. The net worth decreased marginally to Rs.12.06 crore as on 31 March 2020 (provisional) as against Rs.12.28 crore in the previous year on account of drawings from capital's account by the partners. The gearing level deteriorated and stood high at 2.05 times as on 31 March, 2020 (provisional) compared to 1.63 times as on 31 March, 2019. The coverage indicators also remain moderate with interest coverage ratio (ICR) of 2.74 times in FY2020 (provisional) and debt service coverage ratio (DSCR) stood at 2.16 times in FY2020 (provisional). Further, the company is highly leveraged with high debt to EBITDA level of 9.41 times in FY2020 (provisional) on account of decline in EBITDA from Rs.3.67 crore in FY2019 to Rs.1.54 crore in FY2020 (provisional). The decline in revenue generation coupled with moderate profitability level has resulted in a decline of net cash accruals of Rs.1.59 crore during FY2020 (provisional) compared to Rs.1.86 crore in FY2019.

Acuité believes that the financial risk profile will continue to remain moderate on account of moderate growth in revenues and profitability.

- **Working Capital Intensive Operations**

The operations of KRM are working capital intensive reflected by Gross Current Assets (GCA) days of 160 days for FY2020 (provisional), driven by an increase in inventory level to 124 days in FY2020 (provisional) compared to 111 days in FY2019. Working capital requirement is funded through bank lines that have been fully utilised more than 90 percent in the last six months.

Acuité believes that the operations of KRM are likely to remain working capital intensive over the medium term.

Liquidity position: Stretched

The firm has stretched liquidity on account of intensive working capital operations marked by Gross Current Asset (GCA) days of 160 days in FY2020 (provisional). Working capital requirement is funded through bank lines that have been utilized more than 90 percent over the last six months and there have been occasional overdrawings in the cash credit account of the company indicating severely stretched liquidity. The current ratio stood at 2.74 times as on 31 March 2020 (provisional). Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of high utilisation of bank loans along with the moderate scale of operations.

Rating Sensitivities

- Improvement in profitability and scale of operations backed by healthy demand in the steel industry
- Any deterioration in the working capital management will have a negative bias on the rating

Material Covenants

None

Outlook: Stable

Acuité believes that KRM will continue to benefit over the medium term due to its established relations with its customers. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels. Conversely, the outlook may be revised to "Negative", if the firm generates lower-than-anticipated cash accruals or further deterioration in its liquidity position most likely as a result of a sharp decline in operating margins, or further stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	70.19	108.45
PAT	Rs. Cr.	0.28	0.28
PAT Margin	(%)	0.40	0.26
Total Debt/Tangible Net Worth	Times	2.05	1.63
PBDIT/Interest	Times	2.74	1.92

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

CRISIL, vide its press release dated 20 June 2019 has denoted the rating of KRM as CRISIL D; Issuer Not Cooperating' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.40	ACUITE B-/Stable (Assigned)
Working Capital Term Loan	May, 2020	Not Applicable	May, 2024	1.34	ACUITE B-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Nitul Dutta Analyst - Rating Operations Tel: 022-49294053 nitul.dutta@acuite.in	

About Acuité Ratings & Research:

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