Press Release

Kapilansh Dhatu Udyog Private Limited

November 09, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' **(read as ACUITE double B minus)** and the short-term rating of '**ACUITE A4+**' **(read as ACUITE A four plus)** on the Rs.20.00 crore bank facilities of Kapilansh Dhatu Udyog Private Limited (KDUPL). The outlook is **'Stable'**.

Incorporated in 1988, Kapilansh Dhatu Udyog Private Limited (KDUPL) is engaged in manufacturing of cast iron pipes. The day to day operations are managed by its Managing directors, Mr. Mukund Sunderlal Mohta along with other directors, Mr. Ramesh Baldeodas Dujari and Mr. Navin Rajkumar Mohta. Company has 2 manufacturing units, 1 in Nagpur and another in Borgaon, Madhya Pradesh. Total capacity of both the units is around 2000 to 2500 tonnes per month.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experience management**

KDUPL is managed by its Managing directors, Mr. Mukund Sunderlal Mohta along with other directors, Mr. Ramesh Baldeodas Dujari and Mr. Navin Rajkumar Mohta who collectively possess experience of more than three decades in steel pipes and tubes' industry. The extensive experience has enabled the company to forge healthy relationships with customers and suppliers. Its clientele includes Search and Sell Private Limited, Mahalaxmi Trading Corporation, Tru-Form Engineers, to name a few.

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

- **Steady increase in scale of operations and profitability**

The company's operating revenues have been increasing year on year, marked by operating revenue of Rs.113.82 crore in FY2020 as against Rs.106.30 crore in FY2019 and Rs.91.75 crore in FY2018. Operating margins stood at 3.57 per cent in FY2020 as against 3.22 per cent in FY2019. Further, Profit after Tax (PAT) has stood at 0.28 per cent in FY2020 as against 0.14 per cent in FY2019.

Acuite believes that the scale of operations and profitability will remain muted in the near medium term due to COVID-19 impact.

- **Moderate working capital operations**

KDUPL has moderate working capital operations marked by Gross Current Assets (GCA) of 133 days in FY2020 as against 141 in FY2019. The inventory and debtors' levels stood at 60 and 72 days in FY2020 as against 45 and 94 days in FY2019. Further, the average utilization of bank limits stood at ~96 per cent in the last six months ending September, 2020.

Acuité believes that the company's efforts to maintain the working capital operations efficiently will be key rating sensitivity.

Weaknesses

- **Average financial risk profile**
  The financial risk profile is average marked by moderate net worth and debt protection measures and high gearing. The net worth of the company stood at Rs.14.39 crore FY2020 as against Rs.14.06 crore as on 31 March, 2019. The gearing of the company stood high at 1.38 times as on March 31, 2020 as against 1.39 times as on 31 March, 2019. Total debt of Rs.19.84 crore consists of term loans of Rs.6.56 crore, unsecured loans of Rs.0.29 crore and working capital facility of Rs.12.99 crore as on 31 March, 2020. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.65 times as on 31 March, 2020 as against 2.75 times as on 31 March, 2019. Interest Coverage Ratio (ICR) stood at 1.83 times in FY2020 as against 1.92 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March, 2020 as against 0.08 times as on 31 March, 2019. Debt Service Coverage Ratio (DSCR) stood at 1.03 times for FY2020 as against 1.20 times in FY2019.

- **Highly competitive and fragmented industry**
  The steel pipes and tubes industry is highly competitive and fragmented marked by the presence of many organised and unorganised players in this industry, thus putting pressure on the profitability margins of the company. However, this risk is partially mitigated by company's experienced management and long-standing relationships with its reputed clientele.

Liquidity Position: Stretched

KDUPL has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.71 crore in FY2020 as against Rs.1.62 crore in FY2019, while its maturing debt obligation was Rs.1.61 crore in FY2019 as against Rs.1.03 crore in FY2018. The company's working capital operations are moderate as marked by gross current asset (GCA) days of 133 in FY2020. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilised at ~80 percent during the last 6 months' period ended September, 2020. The current ratio of the company stood at 1.23 times as on March 31, 2020.
Acuité believes that the liquidity will remain stretched due to moderate net cash accruals as against maturing debt obligations.

Outlook: Stable

Acuité believes that KDUPL will continue to benefit over the medium term from the industry experience of its management. The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in KDUPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant deterioration in financial risk profile and working capital operations of the company.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	113.82	106.30
Profit after tax (PAT)	Rs. Crore	0.32	0.15
PAT margin	%	0.28	0.14
Total debt / Tangible Net worth	Times	1.38	1.39
PBDIT / Interest	Times	1.83	1.92

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

CRISIL, vide its press release dated April 09, 2020 had denoted the rating of Kapilansh Dhatu Udyog Private Limited as 'CRISIL BB/Stable/A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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)

None.

***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	8.00	ACUITE BB-/Stable (Assigned)
Term Loan	28-12-2015	10.65%	03-10-2025	8.54	ACUITE BB-/Stable (Assigned)
Letter of Credit*	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)
Bank Guarantee*	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.96	ACUITE BB-/Stable (Assigned)

**BG and LC are interchangeable with each other to the extent of Rs.2.50 crore.*

Contacts

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About Acuité Ratings & Research:

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