

Press Release

K A I International Private Limited

May 06, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 100.69 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.100.69 crore of bank facilities of K A I International Private Limited. The outlook is '**Stable**'.

Orissa based, K A I International Private Limited was established in the year 2007 by Mr. Suresh Agarwal, Mr. Natwar Kumar Agarwal and Mr. Yashraj Sethia. The company is engaged in trading of iron ore fines, coal and steel products such as sponge iron and billets. The company procures iron ore fines from the mines in Orissa and exported to China, Singapore and United Kingdom. The company also import coal from South Africa and cater to the domestic steel players mainly from eastern part of the county. The company procures steel product domestically and cater to the rolling mills.

Analytical Approach:

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

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

The company has operational track record of more than a decade. The promoters of the company Mr. Suresh Agarwal, Mr. Natwar Kumar Agarwal and Mr. Yashraj Sethia possess 20 years of experience in the iron ore trading business. Acuité believes that the company will continue to benefit from its promoters' extensive industry experience and healthy relationship with customers over the medium term.

Comfortable financial risk profile

The financial risk profile of the company is marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth of the company stood moderate at Rs.47.21 crore in FY 2020 as compared to Rs 40.34 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company stood low at 0.30 times as on March 31, 2020 when compared to 0.58 times as on March 31, 2019. This improvement in gearing is mainly on account of lower utilization of short term debt and improvement in networth of the company during the period. Interest coverage ratio (ICR) is healthy and stood 3.23 times in FY2020 as against 2.75 times in FY 2019. The debt service coverage ratio (DSCR) of the company also stood comfortable at 2.40 times in FY2020 as compared to 2.05 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.50 times in FY2020 as compared to 0.17 times in the previous year. The total outside liability against tangible networth (TOL/TNW) of the company stood comfortable at 1.26 times in FY2020 as compared to 1.85 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain healthy backed by steady accruals and no major debt funded capex plan over the medium term.

Efficient working capital management

The company's working capital operations are marked by Gross Current Asset (GCA) days of 58 days in FY2020 as compared to 79 days in FY2019. The inventory days of the company stood comfortable at 02 days in FY2020 as compared to 18 days in the previous year. The debtor days also stood comfortable at 16 days in FY2020 as compared to 18 days in FY2019. The efficient working capital management is further demonstrated by the ~62 per cent utilization in the working capital limit for the last six months ended February, 2021. Acuité believes that

the company's ability to efficiently manage its working capital will remain a key rating sensitivity.

Weaknesses

Moderate profitability margin

The operating profitability margin of the company has improved and stood moderate at 2.48 per cent in FY2020 as compared to 1.94 per cent in the previous year. This improvement in operating profitability margin is on account of decrease in cost of the traded goods. Acuité believes the profitability margin of the company will sustain at the moderate level backed by well established presence in the eastern part of the country along with steady demand of iron ore fines from the international market.

The net profitability margin of the company stood moderate at 1.43 per cent in FY2020 as compared to 1.07 per cent in the previous year.

Intense competition and inherent cyclical nature of the steel industry

The industry remained heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivity

- Sustenance of their profitability margin
- Sustenance of their conservative capital structure
- Elongation of working capital cycle

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.7.20 crore as against Rs.0.49 crore long term debt obligations in FY2020. The cash accruals of the company are estimated to remain in the range of around Rs. 17.77 crore to Rs. 21.57 crore during 2021-23 as against Rs. 0.91 crore of long term debt obligations in FY2021, Rs.2.18 crore of long term obligation in FY2022 and Rs.1.95 crore of long term debt obligation in FY2023. The current ratio of the company stood comfortable at 1.60 times in FY2020. The efficient working capital management of the company is marked by comfortable Gross Current Asset (GCA) days of 58 days in FY2020. The bank limit of the firm has been ~62 percent utilized during the last six months ended in February 2021. Moreover, the company has availed the covid emergency fund of Rs. 6.19 crore. The said loan is to be repaid over a period of 4 years including 1 year of moratorium. However, the company has not availed the loan moratorium till August 2020. Acuité believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes that the company's outlook will remain stable over the medium term backed by its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected revenues and profitability, or in case of deterioration in its financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	479.89	365.32
PAT	Rs. Cr.	6.88	3.91
PAT Margin	(%)	1.43	1.07
Total Debt/Tangible Net Worth	Times	0.30	0.58
PBDIT/Interest	Times	3.23	2.75

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>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.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)

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	25.00	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Stable (Assigned)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	6.19	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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