

Press Release

K A I International Private Limited

August 03, 2022

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.52	-	ACUITE A4+ Downgraded
Bank Loan Ratings	65.17	ACUITE BB+ Negative Downgraded Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	100.69	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**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 revised to '**Negative**' from '**Stable**'.

The rating downgrade primarily due to significant deterioration in business risk profile of the company marked by deterioration in operating profitability margin during FY2022 (Prov.). Further, this downgrade is also on account significant deterioration in debt protection metrics along with continuous elongation in working capital management of the company marked by significant increase in gross current asset (GCA) days to 128 days in FY2022 (Prov.) as against of 58 days in the previous year.

About the Company

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

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

Key Rating Drivers

Strengths

Long track record of operation and experienced management-

The company has operational track record of more than a decade in trading business and the directors of the company Mr. Suresh Kumar Agarwal, Mr. Natwar Kumar Agarwal and Mr. Yashraj Sethia have almost two decades of experienced in similar industry. The company has a long presence in this sector and has established a healthy relationship with customers for two decades.

Healthy scale of operation-

The revenue of the company stood healthy of Rs.487.69 crore in FY2022 (Prov.) as against of Rs.1179.06 crore in the previous year. The revenue of the company has significantly increased during FY2021 over FY2020, mainly on account of rise in the trading of iron ore fines sale in the overseas market especially to China due to the high demand and high prices of iron ore fines in the other countries. Going forward, Acuité believes that the revenue of the company will remain healthy on account of steady demand of iron ore fines from the global as well as from the domestic market.

Weaknesses

Low profitability margin

The operating profitability margin of the company has significantly declined to 0.14 per cent in FY2022 (Prov.) as compared to 2.71 per cent in the previous year. This significant deterioration in operating profitability is on account of increase in price of traded goods during the period. Acuité believes that the profitability margin of the company will increase backed by steady demand of iron ore fines from the domestic market as well as from the global market. The net profitability margin of the company stood low at 0.23 per cent in FY2022 (Prov.) as compared to 1.85 per cent in the previous year.

Average financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and moderate debt protection metrics. The net worth of the company stood healthy at Rs.80.12 crore in FY 2022 (Prov.) as compared to Rs 79.01 crore in FY2021. This slight increase in networth is mainly due to the retention of profit in FY2022 (Prov.). The gearing of the company stood comfortable at 0.35 times as on March 31, 2022 (Prov.) and in 31st March 2021 respectively. Interest coverage ratio (ICR) is moderate and stood at 1.72 times in FY2022 (Prov.) as against 8.81 times in FY2021. The debt service coverage ratio (DSCR) of the company has also stood moderate at 1.33 times in FY2022 (Prov.) as compared to 6.06 times in the previous year. The net cash accruals to total debt (NCA/TD) stood low at 0.06 times in FY2022 (Prov.) as compared to 0.79 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain average on account of low net cash accruals and no major debt funded capex plan over the near term.

Working capital intensive nature of operation

The working capital management of the company is marked by high gross current asset (GCA) days of 128 days in FY2022 (Prov.) as compared to 58 days in FY2021. The debtor days of the firm stood comfortable at 09 days in FY2022 (Prov.) as compared to 05 days in the previous year. The inventory days of the firm stood moderate at 25 days in FY2022 (Prov.) as compared to 09 days in the previous year. Moreover, the high GCA days is emanates from the high other current asset, which mainly comprises of advance to suppliers and balance with govt. authorities among others. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Rating Sensitivities

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

Material covenants

None

Liquidity Position

Adequate

The company has moderate liquidity position marked by low net cash accruals of Rs.1.63 crore as against nil of long term debt obligations in FY2022 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 2.27 crore to Rs. 3.19 crore during 2023-24 as against nil long term debt obligations respectively. The bank limit of the company has been utilized ~46 per cent of bank limit during the last six months ended in May 2022. However, the current ratio of the company stood low at 1.08 times in FY2022 (Prov.). The Gross Current Asset (GCA) days of the company stood high at 128 days in FY2022 (Prov.). Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of cash accruals against long debt repayments over the medium term.

Outlook- Negative

Acuité has revised the outlook to 'Negative' on account of expected deterioration in the business risk profile of the company. The outlook may be revised to 'Stable' in case the company registers significant growth in its profitability margin while maintaining the healthy scale of operation, efficiently managing its working capital cycle and improvement in financial risk profile of the company. Conversely, the rating will be downgraded in case of significant decline in revenue, profit margins, further elongation in the working capital cycle and deterioration in financial risk profile.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	487.69	1179.06
PAT	Rs. Cr.	1.12	21.80
PAT Margin	(%)	0.23	1.85
Total Debt/Tangible Net Worth	Times	0.35	0.35
PBDIT/Interest	Times	1.72	8.81

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

None

Any other information

Not Applicable

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>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.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
06 May 2021	Bank Guarantee	Short Term	9.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	6.19	ACUITE BBB- Stable (Assigned)
	Standby Line of Credit	Short Term	2.50	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	38.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	25.00	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
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ Negative Downgraded Stable to Negative
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB+ Negative Downgraded Stable to Negative
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BB+ Negative Downgraded Stable to Negative
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	35.52	ACUITE A4+ Downgraded
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	4.17	ACUITE BB+ Negative Downgraded Stable to Negative

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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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