

## Press Release

Kalindi Ispat Private Limited

July 08, 2022



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	21.38	ACUITE BBB-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	21.38	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as ACUITE Triple B minus) to Rs. 21.38 Cr bank facilities of Kalindi Ispat Private Limited (KIPL). The outlook is '**Stable**'.

The rating on KIPL takes into account the sound business position of the company as reflected from its growing revenue trend coupled with management's long track record in the sector, healthy financial profile characterized by comfortable gearing and strong debt protection metrics. The rating also draws comfort from the adequate liquidity position of the company. These strengths are however, partly offset by the cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices.

## About the Company

Incorporated in September 2004, Kalindi Ispat Private Limited (KIPL) is a Bilaspur, Chhattisgarh based company promoted by the Singhania family. The company has two kilns with an installed capacity of 60,000 metric tonne per annum (MTPA) for manufacturing sponge iron. Manufacturing facility of the company is located in Bilaspur. The company sells mainly in the markets of Chhattisgarh, Madhya Pradesh and adjacent states to the billet and TMT bar manufacturers.

## Analytical Approach

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

## Key Rating Drivers

### Strengths

**Experienced management and established relationship with customers**

The company is promoted by the Singhania family and currently the operations are managed by Mr. Akhilesh Singhania, Mr. Anand Singhania and Mr. Kumar Mangalam Singhania. The directors are well experienced and have been in the industry for more than two decades. The long standing experience of the promoters and long track record of operations has helped

them to establish comfortable relationships with key suppliers and reputed customers. Further, the clientele consist of majorly reputed players in the iron and steel industry which mitigates counterparty credit risk. Acuité derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

### **Significant improvement in operating income and profitability margins**

Supported by a strong rebound in steel demand post unlocking of the economy, KIPL witnessed an improvement in its scale of operations marked by its revenues of Rs. 102.03 Crs in FY2021 as against Rs. 89.13 Crs in FY2020. The performance continued in FY2022 (prov) with the company achieving revenue of Rs. 147.64 Crs. KIPL also operated at a healthy capacity of ~81.52 per cent in FY22 driven by increase in demand of steel products. The operating margin rose to 8.46 per cent in FY2022 (prov) from 5.05 per cent in FY2021. The PAT margin of the company also increased to 5.21 per cent in FY2022 (prov) from 2.12 per cent in FY2021. The increase in profitability margins translated into healthy Return on Capital Employed (ROCE) of the company, which stood at 22.97 per cent as on March 31, 2022 (prov) as compared to 10.53 per cent as on March 31, 2021. The growth in profitability margins was primarily on account of high demand, better pricing power and variable cost reduction through operational efficiencies in production processes. Notwithstanding the significant increase in input prices (mainly iron ore and imported thermal coal) in the current fiscal, Acuité does not expect any significant deterioration in KIPL's operating profits as steel prices remain remunerative. Acuité expects KIPL's profits to remain at attractive levels in the next 12 months as sponge iron prices continue to remain elevated, supported by the accelerated recovery in steel demand in key global steel consuming hubs outside China.

### **Healthy financial risk profile**

The company's healthy financial risk profile is marked by moderate albeit improving net worth, low gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.40.60 Crs as on March 31, 2022 (Prov) from Rs.30.06 Crs as on March 31, 2021, on account of ploughing back of profits. Gearing of the company stood comfortable at 0.42 as on March 31, 2022 (Prov) as compared to 0.35 as on March 31, 2021 due to lower reliance on external debt. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.55 times as on March 31, 2022 (Prov) as against 0.60 times as on March 31, 2021. The strong debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 17.10 times in FY 2022 (Prov) as against 4.78 times in FY 2021; and Debt Service Coverage Ratio (DSCR) at 5.81 times in FY 2022 (Prov) as against 2.96 times in FY 2021. The surge in earnings in FY2022 supported by minimal debt and high accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.53 times as on March 31, 2022 (Prov). Acuité believes that going forward, the financial risk profile of the company will remain healthy backed by steady accruals and absence of any major debt funded capex plan.

### **Weaknesses**

#### **Moderate working capital management**

KIPL's moderate working capital management is reflected from GCA days which stood at 113 days as on March 31, 2022 (Prov) as compared to 107 days as on March 31, 2021. This is led by significant amount of balance with revenue authorities, but supported by low debtor period which improved to 17 days as on March 31, 2022 (Prov) as compared to 26 days in as on March 31, 2021, since KIPL majorly sells to the reputed clientele and follows an efficient collection mechanism. The inventory holding stood moderate at 68 days in 31st March 2022 (Prov) as compared to 77 days as on 31st March 2021 as the company maintains 2-2.5 months of inventory of iron ore and coal to mitigate the price volatility. Acuité believes that the working capital operations of the company will remain at same level as evident from efficient collection mechanism and moderate inventory levels over the medium term.

### **Exposure to inherent cyclicity in and competitive & capital intensive nature of steel sector**

The company's performance remains vulnerable to cyclicalities in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. While there has been a significant push by the government on steel-intensive sectors such as railways and infrastructure, any sustained downturn in demand will adversely impact performance of steel companies. The competitive intensity in the Indian steel sector is significant owing to presence of large steel companies. Also, steel imports from other countries, mainly China, add to the competition. Additionally the domestic steel sector is fairly capital intensive.

### Rating Sensitivities

- Sustainability in revenue growth and margins
- Any elongation of working capital cycle
- Any change in capital structure

### Material covenants

None

### Liquidity Position: Adequate

The company's liquidity is adequate marked by healthy net cash accruals which stood at Rs.9.01 Crs in FY 2022 (Prov) as against long term debt repayment of only Rs. 0.70 Crs during the same period. The prudent working capital management and lower reliance on external borrowings ensures average fund based limit utilization for the past six months ended April, 2022 standing at only ~ 38.56 percent. Further, the current ratio also stood comfortable at 2.16 times as on March 31, 2022 (Prov). The cash and bank balances of the company stood at Rs.0.85 Crs as on March 31, 2022 (Prov) as compared to Rs.0.12 Crs as on March 31, 2021. The working capital management of the company is moderate as reflected by Gross Current Assets (GCA) of 113 days as on March 31, 2022 (Prov) as against 107 days as on March 31, 2021. Acuité believes that going forward the company will continue to maintain adequate liquidity position owing to steady accruals backed by improvement in earnings led by high demand.

### Outlook: Stable

Acuité believes that the outlook on KIPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business position, healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the Group's financial risk profile or delay in completion of its projects or further elongation in its working capital cycle.

### Other Factors affecting Rating

Not Applicable

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	147.64	102.03
PAT	Rs. Cr.	7.69	2.16
PAT Margin	(%)	5.21	2.12
Total Debt/Tangible Net Worth	Times	0.42	0.35
PBDIT/Interest	Times	17.10	4.78

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

Not Applicable

### Any other information

Not Applicable

**Applicable Criteria**

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

Not Applicable

**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	19.50	ACUITE BBB-   Stable   Assigned
ICICI Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	1.88	ACUITE BBB-   Stable   Assigned

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### About Acuité Ratings & Research

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