Press Release
KALINDI ISPAT PRIVATE LIMITED
November 22, 2023
Rating Upgraded

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

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs. 21.38 Cr bank facilities of Kalindi Ispat Private Limited (KIPL). The outlook remains **'Stable'**.

Rationale for rating upgrade

The rating upgrade takes into cognizance the healthy financial risk profile of the company reflected by the low gearing and healthy debt coverage indicators. The rating also considers the experienced management and the long standing operations of the company. The rating further factors the steady business risk profile of KIPL. These strengths are however, offset by the intensive working capital operations of the company and exposure of KIPL to inherent cyclicality and competitive nature of steel sector.

Also, to note, the rating was downgraded vide our press release dated 13th September, 2023 on account of information risk.

About the Company

Incorporated in 2004, Kalindi Ispat Private Limited (KIPL) is based in Bilaspur, Chhattisgarh and promoted by the Singhania family. The company is engaged in the manufacturing of sponge iron and has two DRI Kiln with an installed capacity of 60,000 metric tonne per annum (MTPA). The company purchases both domestic coal & South African coal and crude iron as its raw material for manufacturing of sponge iron. The company sells mainly in the markets of Chhattisgarh, Madhya Pradesh and adjacent states to the billet and TMT bar manufacturers.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management coupled with established clientele relationships

KIPL is managed by Mr. Akhilesh Singhania, Mr. Anand Singhania and Mr. Kumar Mangalam Singhania, having more than two decades of experience in the industry. With the management's support, the company has established long standing operations spanning over a decade and successfully developed healthy relationships with key suppliers and

reputed customers.
Acuité derives comfort from the vintage of the promoters and the believes the long track record of operations along with healthy clientele relationships will continue to benefit the

company going forward.

Steady business risk profile despite moderation in revenues due to plant maintenance

The revenue levels of KIPL declined to Rs. 123.50 Cr in FY2023 from Rs. 147.64 Cr in FY2022. The scale of operations was impacted due to shut down of operations for two months from October to November, 2022 due to undergoing maintenance works in the plant. The halt in operations also impacted the profitability on actual levels.
However, in terms of margins, the operating profitability remained unimpacted with operating margin at 9.29 per cent in FY2023 as against 8.73 per cent in FY2022. The PAT margins stood at 5.39 per cent in FY2023 similar to that in the previous year at 5.43 per cent. The Return on Capital Employed (RoCE) stood at 18.62 per cent in FY2023.
Acuité believes the scale of operations of the company will improve going forward backed by the capacity additions over the medium term.

Healthy financial risk profile

The company's healthy financial risk profile is marked by improving net worth, low gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs.44.72 Cr as on March 31, 2023 from Rs.38.07 Cr as on March 31, 2022 due to accretion of profits. Gearing of the company improved to 0.23 as on March 31, 2023 as compared to 0.44 as on March 31, 2022 due to reduction in the company's debt burden over the same period. Total outside Liabilities/Tangible Net Worth (TOL/TNW) further improved to 0.43 times as on March 31, 2023 as against 0.68 times as on March 31, 2022. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 16.48 times in FY2023 and Debt Service Coverage Ratio (DSCR) at 4.00 times in FY2023. Net Cash Accruals/Total Debt (NCA/TD) improved to 0.78 times as on March 31, 2023 from 0.55 times as on March 31, 2022.

Further, KIPL is undergoing a capex plan to install one Kiln of 100 TPD to enhance the production capacity of the sponge iron unit from 60,000 MTPA to 99,000 MTPA along with the installation of a new billet unit with production capacity of 107000 TPA. The company is also installing one captive power plant comprising of one Waste Heat Recovery Boiler (WHRB) of 6 MW and one Atmospheric Fluidised Bed Combustion (AFBC) of 6 MW. The project commenced in October, 2023 and is expected to be completed by July, 2025 with commercial operations starting in August, 2025. The total cost of the project is Rs.136.65 Cr out of which, Rs.94 Cr will be funded through a term loan and rest is to be financed by promoters' contribution and internal accruals. The term loan is yet to be sanctioned.
Acuité believes that, going forward, the gearing would witness moderations due to the ongoing capex, however, the financial risk profile of the company will remain healthy backed by improvement in the accruals.

Weaknesses

Intensive working capital management

The working capital management of KIPL is intensive in nature marked by Gross Current Assets (GCA) days at 120 days as on March 31, 2023 as compared to 112 days as on March 31, 2022. The moderate GCA days are on account of moderate inventory days and significant advances given to suppliers coupled with balances with statutory authorities to the tune of Rs.10.54 Cr in FY2023. The inventory period stood moderately high at 84 days in FY2023 as against 71 days in FY2022 as the company maintains 2-2.5 months of inventory of iron ore and coal to mitigate the price volatility. However, the debtor cycle stood low at 10 days in FY2023 as compared to 4 days in FY2022. The working capital requirement is partially supported by credit of around 15 days from the suppliers. Moreover, the fund based limit utilization stood low at 8.47 per cent for the past six months ended September, 2023.
Acuité believes that the working capital operations of the company will remain around similar levels as evident from the efficient collection mechanism and moderate inventory levels over the medium term.

Exposure to inherent cyclicality and competitive nature of steel sector

The company's performance remains vulnerable to cyclicality in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. The downstream steel industry remains 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 Sensitivities

Improvement in the scale of operations while sustaining the profitability margins
Further elongation of working capital cycle
Improvement in the capital structure

All Covenants

None

Liquidity Position

Adequate

The company's liquidity is adequate marked by steady net cash accruals and low fund based bank limit utilisation. The net cash accruals stood at Rs. 8.19 Cr in FY 2023 as against long term debt repayment of only Rs. 1.83 Cr during the same period. The fund based limit utilization for the past six months ended September, 2023 stood at low levels at only 8.47 per cent. Further, the current ratio also stood comfortable at 2.22 times as on March 31, 2023. The cash and bank balances of the company stood at Rs. 0.13 Cr as on March 31, 2023. However, working capital management of KIPL is intensive in nature marked by Gross Current Assets (GCA) days at 120 days as on March 31, 2023 as compared to 112 days as on March 31, 2022 on account of moderate inventory days and significant advances to the suppliers.
Furthermore, KIPL is undergoing a capex plan to enhance the sponge iron production capacity and install a billet unit along with a captive power plant. The total cost of the project is Rs.136.65 Cr out of which, Rs.94 Cr will be funded through a term loan and rest is to be financed by promoters' contribution and internal accruals. The term loan is yet to be sanctioned.
Acuité believes that, going forward the liquidity position of the company will remain adequate owing to the steady cash accruals.

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 and healthy financial risk profile. 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 company's financial risk profile or further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	123.50	147.64
PAT	Rs. Cr.	6.65	8.01
PAT Margin	(%)	5.39	5.43
Total Debt/Tangible Net Worth	Times	0.23	0.44
PBDIT/Interest	Times	16.48	19.24

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

Not Applicable

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
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Sep 2023	Cash Credit	Long Term	19.50	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	1.88	ACUITE BB+ (Issuer not co-operating*)
08 Jul 2022	Covid emergency line	Long Term	1.88	ACUITE BBB- (Assigned)
	Cash Credit	Long Term	19.50	ACUITE BBB- (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.50	ACUITE BBB- | Stable | Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.88	ACUITE BBB- | Stable | Upgraded

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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.