

Press Release
K R ASSOCIATES
January 11, 2024
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	32.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.32.00 Cr bank facilities of K R Associates. The outlook is '**Stable**'.

Rationale for rating

The rating assigned factors in the steady business risk profile marked by operating income of Rs.94.6 Cr in FY23 and sustenance of the operating margin, which is further expected to improve in the medium term backed by synergies derived from the setting up of the clinker plant. However, Acuite notes that due to high depreciation on the new asset created during the year resulted in net losses in FY23, which is expected to improve in FY24. The rating also derives comfort from the experience of one of the Partners who have over two and a half years of experience in the cement industry. The rating also factors in the comfortable level of debtor collection period and inventory holding period which stood at 23 days and 32 days respectively in FY23. The adequate liquidity position as reflected in the sufficient cushion in the fund-based bank limit utilisation which stood at ~89 per cent over the last six months ended October'23, further supports the rating. The rating, however, remains constrained by leveraged capital structure (D/E: 2.34 times as on March 31, 2023) and susceptibility in profit margins to volatility in the input cost.

About the Company

Established in 2009, K R Associates (KRA), an Assam based firm is engaged in the manufacturing of cement and clinker. The firm has commenced production of cement in November'19 with manufacturing capacity of 400 TPD and have been manufacturing cement for Amrit Cement Ltd on job work basis until FY2023. Subsequently, the firm has set up its own clinker division with manufacturing capacity of 300 TPD with commercial production starting from June'22 to avail the synergy benefits of grinding and manufacturing its own cement. The firm currently manufactures and market the cement under the Brand Name "Galaxy Cement".

Unsupported Rating

Not applicable

Analytical Approach

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

Key Rating Drivers

Experienced partners

One of the promoters, Mr. Deepak Kayal has more than two and a half decades of experience in the cement industry. The other partners of firms have varied experience and have been running successful business in diversified portfolio.

Acuite believes that the experience of the partners might support the business risk profile to an extent in near to medium term.

Improvement in operating income in FY23 and H1FY24 with steady operating margins

The operating income of the firm improved to Rs.94.65 Cr in FY2023 as against Rs.47.55 Cr in FY2022, thereby registering an y-o-y growth of ~99 per cent on account of increase in both the sales volume and average realisation of cements during the year. Further, the firm has achieved a revenue of Rs.58.94 Cr in H1FY24. Majority of the firm's sales is concentrated in Assam in the hub of limestone mines and large cement players, saving on transportation costs. The firm has a healthy capacity utilization of 91 per cent for cement and 85 per cent for clinker in the current year.

Acuite believes the sales growth momentum to pick up in 2HFY24 on the back of demand from infrastructure projects ahead of elections.

The operating margin of the firm showed a steady trend with 9.65 per cent in FY2023 as against 9.62 per cent in FY2022. Though, the power and fuel cost have increased significantly in FY23 (12.75 % of sales in FY23 from 6.41 % of sales in FY22), the firm had been able to maintain its margin, since it has started its own backward integration unit of clinker plant in June'22 which had resulted significant decline in the material cost (FY23: 68.38% of sales; FY22: 78.35% of sales). The firm has set up its own clinker division with manufacturing capacity of 300 TPD in June'22 to avail the synergy benefits of grinding and manufacturing its own cement, which shall help improve margins in the medium term. The EBITDA/ metric tonne also improved to Rs.954.09/mt in FY23 from Rs.520.12/mt in FY22. In the H1FY24, the company has shown improvement in the EBITDA (H1FY24: Rs.6.23 Cr; H1FY23: 2.97 Cr) owing to reduction in material cost on account of synergies derived from the clinker plant as well. Further, with gradual softening of power and fuel cost is expected to improve the operating margins in the medium term. Sales volumes could receive support from 3QFY24 post monsoons, and this coupled with gradual softening of the input costs could lead to a gradual recovery in the profitability in 2HFY24.

However, the PAT margin stood at (-)1.47 per cent in FY2023 as against 0.75 per cent in FY2022 due to high depreciation on the new asset created during the year. Nevertheless, the firm has reported a PAT of Rs.1.01 Cr in H1FY24 and is expected to register a net profit in FY24.

Given that the raw-material cost is the major cost driver and exposed to risk of volatility in input prices, the company's ability to sustain its margins will remain a key monitorable.

Moderate working capital management

The firm has a moderate working capital management marked by improved GCA days of 76 days in FY2023 as against 111 days in FY2022 on account of improvement in debtor collection period. The debtor period improved to 23 days in FY2023 as against 49 days in FY2022. The inventory period increased still stood comfortable at 32 days in FY2023 as against 16 days in FY2022 due to commencement of clinker plant during the period. Acuite believes that the working capital operations of the company is likely to remain almost at the same levels as evident from efficient collection mechanism and comfortable inventory holding over the medium term.

Nonetheless, the firm has substantial dependence on its suppliers and creditors to support the working capital; creditors stood high, though improved at 44 days as on March 31, 2023 as against 60 days as on March 31, 2022. Sustained improvement in creditors will remain a key monitorable.

Weaknesses

Average financial risk profile

The firm's financial risk profile is average marked by moderate net worth base, high gearing and comfortable debt protection metrics. The tangible net worth of the company increased

to Rs.17.92 Cr as on March 31, 2023 from Rs.16.44 Cr as on March 31, 2022 due to infusion of capital by partners. Gearing of the firm stood at 2.34 times as on March 31, 2023 as against 2.87 times as on March 31, 2022. Moreover, the comfortable debt protection metrics is marked by Interest coverage Ratio of 3.73 times as on March 31, 2023 as against 3.20 times as on March 31, 2022; and Debt Service Coverage Ratio at 1.16 times as on March 31, 2023 as against 0.95 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.03 times as on March 31, 2023 as against 3.38 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.16 times as on March 31, 2023 as against 0.07 times as on March 31, 2022.

Acuité believes that going forward the financial risk profile of the company is likely to be sustained backed by steady accruals and no major debt funded capex plans.

Susceptibility to volatility in input cost; cyclicity associated with the cement industry

Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realizations. Moreover, profitability remains susceptible to volatility in input prices, including raw material, power, fuel and freight. Realisations and profitability are also affected by demand, supply, offtake and regional factors. PCIL remains exposed to frequent fluctuations in power cost in addition to the risks of volatile other input prices.

Rating Sensitivities

- Improvement of the scale of operations along with significant improvement in the profitability margins.
- Elongation of working capital cycle

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Liquidity Position Adequate

The firm has an adequate liquidity position marked by Net Cash Accruals of Rs.6.73 Cr as on March 31, 2023 as against current maturities of long-term debt of Rs.5.48 Cr. Further, the firm is expected to generate sufficient net cash accruals to repay its debt obligation in near to medium term. The fund-based limits remained moderately utilised at 89.66 per cent for the last six months ended October'23. However, the current ratio stood low at 0.76 times as on March 31, 2023. The cash and bank balance stood at Rs.0.70 Cr as on March 31, 2023. Moreover, the moderate working capital management of the firm is marked by GCA days of 76 days in FY2023 as against 111 days in FY2022.

Acuité believes that going forward the firm is likely to maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on KRA will remain 'Stable' over the medium term on account of experienced management and moderate scale of operations. The outlook may be revised to 'Positive' in case the company registers any significant improvement in its scale of operations or profitability margins or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity position or further deterioration in the profitability margins or deterioration in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	94.65	47.55
PAT	Rs. Cr.	(1.40)	0.36
PAT Margin	(%)	(1.47)	0.75
Total Debt/Tangible Net Worth	Times	2.34	2.87
PBDIT/Interest	Times	3.73	3.20

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>
- Entities In Manufacturing Sector:- <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, Acuite 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 :

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.25	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.28	ACUITE BB Stable Assigned
North Eastern Development Finance Corporation Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	16.88	ACUITE BB Stable Assigned
North Eastern Development Finance Corporation Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.59	ACUITE BB Stable Assigned

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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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