Kashvi International Private Limited

July 01, 2020

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Long Term Bank Facilities	27.75	IVR BBB-/Positive (IVR Triple B Minus with Positive Outlook)	Assigned
2	Short Term Bank Facilities	7.50	IVR A3 (IVR A Three)	Assigned
	Total	**35.25 (Rs Thirty-Five crore and Twenty-Five Lakh Only**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Kashvi International Private Limited (KIPL) derives comfort from its experienced promoters, allocation of iron ore mine during FY20, strategic location of its plant backed by strong backward integration with captive iron ore mine, improving capacity utilisation and diversified customer base. The ratings also consider KIPL's satisfactory financial performance in the past two fiscals along with capital infusion by the promoter during FY20 leading to improvement in the capital structure and satisfactory debt protection metrics. These rating strengths are partially offset by its short track record of operation, presence in highly competitive & fragmented industry, working capital intensive nature of operations and exposure to cyclicality in the steel industry. The outlook remains positive on account of expected improvement in its scale of operations and profitability in the near term with growth in mining operations.

Rating Sensitivities

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals and debt protection metrics on a sustained basis
- Improvement in the capital structure with improvement in debt protection metrics
- Improvement in operating cycle and liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Deterioration in working capital management impacting the liquidity and moderation in overall gearing to more than 2 times.
- Withdrawal of subordinated unsecured loans amounting to Rs.63.37 crore.
- More than 5% deviation in FY20 provisional results as compared to FY20 (Audited) results

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

The promoter, Mr. Debabrata Behera (aged about 50 years), is a first generation entrepreneur and has more than two and half decades of experience in the business of iron ore trading/exporting, manufacturing of sponge iron, billet and ingots. Before incorporating KPSPL, Mr. Behera started his career with Orissa Sponge Iron Ltd in 1991 and worked in various companies in various capacities. He looks after the day-to-day operations of the company. Long experience of the promoter supports the business risk profile of the company.

- **Capital infusion by the promoter leading to improvement in the capital structure and satisfactory debt protection matrices**

During FY20, the promoter has infused an equity capital of Rs.5.00 crore and another Rs.63.37 crore as quasi equity (fresh infusion of Rs.48.18 crore and conversion of existing unsecured loans to subordinated unsecured loans amounting to Rs.15.19 crore) in the form of subordinated unsecured loan. Significant capital infusion strengthens the capital structure to a large extent. The capital structure of the company remained comfortable as on March 31, 2020 (Prov.) marked by long-term debt equity ratio and overall gearing at 0.13x and 0.27x respectively (1.15x and 1.68x in March 31, 2019). Further, the total indebtedness of the company as reflected by the TOL/ANW remained satisfactory at 0.45x as on March 31, 2020 (Prov.). The debt protection parameters marked by the interest coverage also remained comfortable at 3.33x and Total debt/GCA remained moderate at 3.46x respectively in FY20.

- **Allocation of mine**

The company has acquired an iron-ore mining lease in Jaribahal iron ore block during FY20 through mining auction from the Government of Odisha. The acquired lease is for 50 years. The mine is spread over an area of 106.53 ha, and has an estimated iron ore reserve of 7.15 MT. The mine was operational under previous lease holder. Upon transfer of lease the mine has started operation from March, 2020 under KIPL. Further, its sister concern, M/s D.B. Mines, has also owned another mine, namely Siljora-Kalimati Manganese & Iron Mine, in Odisha. Having own mines strengthens the business risk profile of the group at a large extent.

- **Strategic location of the plant and strong backward integration**

KIPL's manufacturing facility is located at Keonjhar District of Orissa, which is in close proximity to iron ore mines from where KIPL procures its iron ore. This apart, the company has a 2mw captive power plant in its premises. Further, coal rich states of Jharkhand, West Bengal and Chhattisgarh are also located nearby. From the demand side also, Keonjhar being an industrial belt has end market for its sponge iron. Moreover, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Hence, the plant enjoys competitive advantages in terms of containment of transportation costs and ready market. Furthermore, addition of captive mine will enhance the capability of the company to a large extent.

- **Improving capacity utilisation and diversified customer base**

KIPL has operated at a healthy capacity of~87% in FY20 improved from 70% in FY19 driven by higher market penetration and demand of sponge iron in the vicinity. Further, the company derived around ~18% of its sales in FY20 from its top ten customers, indicating diverse customer base.

- **Satisfactory financial performance**

The company has achieved steady growth in its scale of operations within its short track record of operations. During FY20, the company registered a healthy y-o-y growth of ~30% and the operating revenue stood at ~Rs.164 crore. Further, the operating margin of the company remained satisfactory during the past two years and stood satisfactory at 8.40% in FY20. However, due to high capital charges and depreciation in its initial stage of operation the PAT margin though improved from 1.45% in FY19 remained moderate at 2.28% in FY20.

The company has earned a GCA of Rs.7.83 crore in FY20 vis-a-vis its repayment obligation of Rs.3.00 crore during the year. Going forward, Infomerics expects that the financial performance will improve steadily with growth in mining operations.

Key Rating Weaknesses

- **Short track record**

KIPL started its operation since February, 2018 hence it has a short track record of operation. Further, its scale of operations also remained small in the sponge iron manufacturing segment which is largely dominated by big and established players. Small scale of operations restricts the financial flexibility of the company.

- **Highly competitive & fragmented nature of industry**

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

- **Working capital intensive nature of operations**

The operations of the KIPL are working capital intensive as the company needs to procure its main raw materials i.e. iron ore and coal mostly on advance basis or with minimum credit period and on the other hand has to extend higher credit period to its customers due to high competition in the industry. Besides, it also needs to maintain raw material inventory (mainly iron ore) for uninterrupted production. The operating cycle of KIPL stood at 104 days owing to high inventory days (102 days). However, the company had managed to obtain credit period, reflected in the average creditor days (26). The average utilisation of its working capital limit of KIPL remained moderate at ~83% during the past12 months ended on May, 2020. However, going forward with addition of captive mines the working capital intensity of the business is expected to decline.

- **Cyclicality in the steel industry**

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

KIPL has earned a gross cash accrual of Rs.5.78 crore in FY19 and Rs.7.83 crore in FY20 (prov. CA certified). Further the company is expected to earn a gross cash accrual in the range of ~Rs.11-20 crore as against debt repayment obligation in a range of ~Rs.3 crore during FY21-23. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. However, any unplanned capex may affect the liquidity positon of the company. Further, the average cash credit utilisation of the company remained moderate at ~83% during the past 12 months ended May 2020 indicating a moderate liquidity cushion.

About the Company

Kashvi International Private Limited (KIPL), incorporated in July 2007 was promoted by Mr. Debabrata Behera of Keonjhar district, Orissa, along with Ms. Susmita Behera. Initially the company remained dormant. The promoters acquired a plant from Patnaik Minerals Private Limited under KIPL and started manufacturing of sponge iron since February, 2018. The plant of the company is located at Keonjhar which is in close proximity of various steel plants and raw material suppliers with a current installed capacity of 90,000 metric tonne per annum (MTPA). During February 2020, the company has secured a 50 years lease of Jaribahal Iron Ore Mines in Odisha through mining auction. The mine has started operation from March, 2020.

Financials (Standalone): (Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	125.52	163.75
EBITDA	10.22	13.75
PAT	1.81	3.73

Total Debt	45.32	27.08
Tangible Net worth	27.05	102.00$
EBITDA Margin (%)	8.14	8.40
PAT Margin (%)	1.45	2.28
Overall Gearing Ratio (x)	1.68	0.27

*Classification as per Infomerics' standards; $adjusted net worth

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	12.75	IVR BBB-/Positive	-	-	-
2	Cash Credit	Long Term	15.00	IVR BBB-/Positive	-	-	-
3	Bank Guarantee	Short Term	5.00	IVR A3	-	-	-
4	Letter of Credit	Short Term	2.50	IVR A3	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits - Cash Credit	-	-	-	15.00	IVR BBB- /Positive
Long Term Fund Based Limits – Term Loan	-	-	March 2024	12.75	IVR BBB- /Positive
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	5.00	IVR A3
Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	2.50	IVR A3