



Press Release

Khyati Ispat Private Limited

August 18, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities- Cash Credit	79.50	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Short Term Bank Facilities- Letter of Credit	5.00	IVR A3 (IVR A Three)	Assigned
	Total	84.50 (Rupees eighty four crore and fifty lakhs only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Khyati Ispat Private Limited (KIPL) draw strength from its experienced promoters, strategic location of the plant and established relationship with major customers and suppliers. The ratings also note its stable operating performance despite decline in revenue in FY20 (Prov.) and comfortable capital structure with moderate debt protection metrics. The rating strengths are, however, constrained by its lack of backward integration vis-à-vis volatility in prices, intense competition, working capital intensive nature of business and exposure to cyclicity in the steel industry.

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability leading to improvement in debt protection metrics on a sustained basis
- Sustenance of the capital structure
- Sufficient liquidity buffer with enhancement in the existing limits and/or working capital limits utilisation remained below 90% on a sustained basis

Downward factor:

- Decline in scale of operation coupled with decline in profitability on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x and impairment in debt protection metrics with interest coverage ratio goes below 2x



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- Deterioration in liquidity position due to inability to obtain enhancement in the existing limits or high working capital intensity, resulting in heavy utilisation of the existing limits.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

KIPL is promoted by Mr. Basant Kumar Agarwal and Mr. Babita Basant Agarwal, who has more than three decades of experience in the steel sector. The day to day affairs of the company are looked after by Mr. Basant Kumar Agarwal, with the help of his son Mr. Anmol Agarwal, who manages all activities related to the projects, day to day planning, management and administration activities.

- **Location advantage**

The manufacturing facilities of KIPL are located at Jarwah, Raipur, where there is ample availability of raw material like billets/blooms. Further, the manufacturing facility of the company is well connected through road/rail. The strategic location of the plant of KIPL enables it to easily and cost effectively procure raw materials and distribute its product.

- **Reputed clientele and longstanding relation with them**

Since its incorporation, KIPL supplies its manufactured product to reputed companies on the back of its longstanding relationship with reputed corporates. KIPL purchases raw material from Steel Authority of India Limited, Mangalam Alloy & Ispat Pvt Ltd, etc.

- **Stable operating performance, despite decline in revenue in FY20**

KIPL's total operating income grew at a CAGR of ~14.20% over the last three years FY17-FY19. The company witnessed steady improvement by ~22% in FY18 to Rs.320.1 crore and ~6% in FY19 on account of year over year higher increase in sales realization. However, During FY20 (Prov.), despite increase in sales realization, the company witnessed a decline of ~25% in revenue to Rs.253.5 crore, due to substantial decline in sales volume driven by lower orders during the year as the company was not willing to sacrifice its sales realisation. The EBITDA margin of KIPL declined from 7.61% in FY18 to 4.61% in FY19 due to higher increase in raw material price vis-à-vis total operating income. As per provisional FY20, EBITDA margin improved to 7.26% due to lower increase in raw material consumed vis-à-vis total operating income. However, despite decline in EBITDA margin, the PAT margin of the company improved from 1.72% in FY18 to 1.84% in FY19 and to 2.38% in Provisional FY20



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due to interest recovered from parties amounting to Rs.7.27 crore in FY19 and Rs.4.27 crore in FY20. During Q1FY21, the company has achieved a total operating income of ~Rs.56 crore. Further, KIPL has an order book of Rs.47.2 crore as on July 25, 2020 to be completed within next 3 to 4 months ensuring revenue visibility over the near term.

- **Comfortable capital structure with moderate debt protection metrics**

The capital structure of the company remained comfortable with nil long-term debts along with improvement in tangible net worth driven by accretion of profit to reserves. The overall gearing of the company, improved from 0.88x as on March 31, 2018 to 0.78x as on March 31, 2020 (Prov.). Total indebtedness of the company as reflected by TOL/ANW also stood comfortable at 0.99x as on March 31, 2020 (Prov.). The debt protection indicator of the company like interest coverage has improved from 2.10x in FY19 to 2.28x in FY20 backed by higher absolute EBITDA. However, Total Debt/GCA remained moderate at 7.62 years in FY20 (Prov.) mainly due to higher utilization of working capital limit as on balance sheet date.

Key Rating Weaknesses

- **Lack of backward integration vis-à-vis volatility in prices**

Raw material consumption is the single largest cost component for KIPL. The company does not have any backward integration for its basic raw materials and has to purchase the same from open market. Since, the raw material is the major cost driver (constituting about ~90-93% of total cost of sales in the past years) and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices.

- **Intense competition**

The steel manufacturing businesses is characterized by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including KIPL.

- **Working capital intensive nature of business**

The operations of KIPL are working capital intensive due to its moderate average collection period from its customers and inventory holding requirements to smooth functioning of its operations. The average inventory holding period of the company remained around 100 days in FY20. Also the company allows credit period of around 45-60 days to its customers



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resulting in higher operating cycle of 151 days in FY20 as against 105 days in FY19. Average bank limit utilisation of the company remained moderate ~ 82% during the past 12 months' period ended June 2020.

- **Cyclicality in the steel industry**

The domestic steel industry is cyclical in nature and is likely to influence the cash flows of the steel players, including KIPL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the demand-supply dynamics in the real estate sector.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity of the company is expected to remain adequate in the near to medium term marked by sufficient accruals vis-à-vis its nil debt repayment obligations. The average working capital limit utilisation also remained moderate at ~82% during the past twelve months ended June 2020 indicating moderate liquidity buffer. However, the liquidity position remains constrained due to its elongated operating cycle and stretched collection period.

About the Company

KIPL was incorporated in the year 1996 by one Agarwal family based out of Raipur, Chhattisgarh to set up a steel plant. The directors of KIPL are Mr. Basant Kumar Agarwal and Mr. Babita Basant Agarwal. The company started its commercial production in 2005. It is engaged in production of rolled products Mild Steel(MS) Billets, MS Angles, MS Channels, MS Flats, MS Round, Thermo-Mechanically Treated (TMT) bars, Joist/Beam and Other By-Products. The company's manufacturing plant is located in Jarwah, Hirapur, Raipur (Chhattisgarh) with installed capacity of 114000 MTPA.

Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	340.03	253.54



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For the year ended* / As On	31-03-2019	31-03-2020
EBITDA	15.66	18.42
PAT	6.43	6.15
Total Debt	72.18	74.38
Tangible Net worth	90.59	95.83
EBITDA Margin (%)	4.61	7.26
PAT Margin (%)	1.84	2.38
Overall Gearing Ratio (x)	0.80	0.78

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Brickwork has moved the rating to issuer non cooperating category vide its press release dated March 17,2020 due to lack of cooperation from the client and in absence of information.

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)	Ratings	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.	Cash Credit	Long Term	79.50	IVR BBB-/Stable	-	-	-
2.	Letter of Credit	Short Term	5.00	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 Bank Facilities- Cash Credit	-	-	-	79.50	IVR BBB-/ Stable Outlook
Short Term Bank Facilities- Letter of Credit	-	-	-	5.00	IVR A3
Total				84.50	