Khyati Ispat Private Limited

May 28, 2024

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan	3.70 * (Reduced from Rs.5.66 crore)	IVR BBB; Stable (IVR Triple B with Stable outlook)	Upgraded	Simple
Long Term Bank Facilities – Cash Credit	72.00	IVR BBB; Stable (IVR Triple B with Stable outlook)	Upgraded	Simple
Short Term Bank Facilities –Letter of Credit	25.00	IVR A3+ (IVR A Three Plus)	Upgraded	Simple
Long Term Bank Facilities – Cash Credit	20.00	IVR BBB; Stable (IVR Triple B with Stable outlook)	Assigned	Simple
Short Term Bank Facilities –Letter of Credit	8.00	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Total	**128.70 (Rupees One hundred and twenty-eight crore and seventy lakhs only)**			

**Outstanding as on February 29, 2024*

Details of Facilities are in Annexure 1

Detailed Rationale

The upgrade and assignment of the ratings to the bank facilities of Khyati Ispat Private Limited (KIPL) considers the improvement in business performance of the company in FY2024 (Provisional) coupled with comfortable capital structure and satisfactory debt coverage indicators. The ratings also continue to derive strength from its experienced promoters, strategic location of the plant and established relationship with its major customers and suppliers. These rating strengths are however, constrained by lack of backward integration vis-à-vis volatility in prices, exposure to intense competition, working capital intensive nature of its business and exposure to cyclicality in the steel industry.

Key Rating Sensitivities:

Upward factors

- Improvement in operating margin leading to improvement in cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in debt protection metrics with improvement in interest coverage ratio to over 3x

- Improvement in operating cycle leading to improvement in liquidity

Downward Factors

- Decrease in scale of operation coupled with decrease in profitability and cash accruals 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
- Elongation of operating cycle thereby impacting the liquidity position of the company

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 have 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.

Locational 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 with longstanding relation with them

Since its incorporation, KIPL supplies its manufactured product to reputed companies like Transrail Lighting Ltd, Kalpataru Power Transmission Limited, Larsen & Tourbo Limited, etc. Hence, the company has maintained longstanding relationship with reputed corporates which enables it to procure repeat orders.

Improvement in business performance in FY2024 (Prov.)

The company witnessed a significant y-o-y improvement in its total operating income (TOI) by ~22% in FY24 (Prov.) to Rs.717.99 crore as compared to Rs.589.87 crore in FY23 mainly driven by increase in volume sales and average sales realization attributable to increase in domestic demand for steel products. Also, the commencement of galvanization and fabrication unit from June 2021 onwards resulted in gradual addition of new customers which in turn added to the growth in revenues during the last two fiscal years. With the increase in scale of operation, EBITDA margin also increased marginally from 6.44% in FY23 to 7.01% in FY24 (Prov.) driven by economies of scale resulting in better absorption of fixed overheads. Consequently, PAT margin also increased marginally from 2.03% in FY23 to 2.28% in FY24 (Prov.). Driven by increase in profitability, net cash accruals also improved from Rs.17.35 crore in FY23 to Rs.22.52 crore in FY24 (Prov.). The company's ability to sustain the growth in its scale of operation while focusing on an increase in its operating margin will be a key rating monitorable going forward.

Comfortable capital structure with satisfactory debt protection metrics

The capital structure of the company continues to remain comfortable with long term debt to equity ratio and overall gearing ratio at 0.30x and 1.20x respectively as on March 31, 2024 (Prov.) as against 0.46x and 1.42x respectively as on March 31, 2023. Further, total indebtedness of the company as reflected by TOL/ANW stood comfortable at 2.22x as on March 31, 2024 (Prov.). The debt coverage indicators continued to remain comfortable with ICR of 2.26x in FY24 (Prov.; 2.27x in FY23). Total debt/EBITDA and Total debt/GCA also improved and remained comfortable at 2.24x and 5.01x respectively as on March 31, 2024 (Prov.).

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 ~85-90% 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.

Exposure to 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 on account of high inventory period of around 90-100 days since the company makes back-to-back purchase of billets to reduce the volatility of raw material. Also, the company allows credit period of around 45-60 days to its customers resulting in higher operating cycle. Moreover, the average working capital utilization remained moderately high at ~81% for the past twelve months ended February 2024. The working capital cycle though improved from 96 days in FY2023 to 89 days in FY2024 (Prov.) continues to remain high.

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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Policy of default recognition

Criteria – Complexity Level of Rated Instruments/Facilities

Liquidity: Adequate

The liquidity of the company is expected to remain adequate in the near to medium term marked by its expected sufficient cash accruals as against its debt repayment obligations of Rs.9.48 crore in FY2025, Rs.8.45 crore in FY2026 and Rs.3.76 crore in FY2027. The average working capital limit utilisation also remained moderate at ~81% during the past twelve months ended February 2024 indicating moderate liquidity buffer. The current ratio also stood comfortable at 1.64x as on March 31, 2023 (Prov.). However, the liquidity position remains constrained to an extent due to its elongated operating cycle.

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 has its registered office in Raipur, Chattisgarh. 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. Further, KIPL has recently concluded a capex and set up a fabrication and galvanisation unit with an installed capacity of 60,000 MTPA which commenced operations from July 2021 onwards.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	386.20	589.87
Total Income	386.48	590.28
EBITDA	28.56	38.00
PAT	7.89	11.98
Total Debt	100.85	105.94
Tangible Net worth	109.35	121.33
Adjusted Tangible Net worth	72.75	74.85
EBITDA Margin (%)	7.40	6.44
PAT Margin (%)	2.04	2.03
Overall Gearing Ratio (x)	1.39	1.42

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating to issuer non cooperating category vide its press release dated May 24, 2023, 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 2024-25)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23		Date(s) & Rating(s) assigned in 2021-22	
					-	March 31, 2023	February 09, 2023	December 16, 2021	November 17, 2021
1	Term Loan	Long Term	3.70 # (Reduced from Rs.5.66 crore)	IVR BBB/ Stable	-	IVR BBB-/Stable	IVR BB+/Negative; ISSUER NOT COOPERATIN G*	IVR BBB-/Stable	-
2	Cash Credit	Long Term	72.00	IVR BBB/ Stable	-	IVR BBB-/Stable	IVR BB+/Negative; ISSUER NOT COOPERATIN G*	IVR BBB-/Stable	IVR BBB-/Stable
3	Letter of Credit	Short Term	25.00	IVR A3+	-	IVR A3	IVR A4+; ISSUER NOT COOPERATING*	IVR A3	IVR A3

Sr. No.	Name of Instrument / Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23		Date(s) & Rating(s) assigned in 2021-22	
					-	March 31, 2023	February 09, 2023	December 16, 2021	November 17, 2021
4	Cash Credit	Long Term	20.00	IVR BBB/ Stable	-	-	-	-	-
5	Letter of Credit	Short Term	8.00	IVR A3+	-	-	-	-	-

#Outstanding as on February 29, 2024
**Issuer did not cooperate; based on best available information*

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About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

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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
Term Loan	-	-	January 2026	3.70 * (Reduced from Rs.5.66 crore)	IVR BBB/Stable
Cash Credit	-	-	-	92.00	IVR BBB/Stable
Letter of Credit	-	-	-	33.00	IVR A3+

**Outstanding as on March 31, 2024*

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Khyati-Ispat-may24.pdf

Annexure 3: List of companies/Entities considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.