Press Release

Khyati Ispat Private Limited

March 31, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan	5.66 ^ (Reduced from Rs.9.00 crore)	IVR BBB-/ Stable (IVR Triple B minus with stable outlook)	Revised and removed from Issuer Not Cooperating	Simple
Long Term Bank Facilities – Cash Credit	72.00 (Reduced from Rs.78.00 crore)	IVR BBB-/ Stable (IVR Triple B minus with stable outlook)	Revised and removed from Issuer Not Cooperating	Simple
Short Term Bank Facilities – Letter of Credit	25.00	IVR A3 (IVR A three)	Revised and removed from Issuer Not Cooperating	Simple
Total	**102.66 (INR One hundred and two crore and sixty-six lakhs only)**			

**Issuer did not cooperate based on best available information ^Outstanding as on December 31, 2022*

Details of Facilities are in Annexure 1

Detailed Rationale

Earlier the ratings assigned to the bank facilities of Khyati Ispat Private Limited (KIPL) were revised and moved to Issuer Not Cooperating category due to non-receipt of adequate information from the company. Infomerics has now removed the ratings from the Issuer Not Cooperating category based on adequate information received from the company for review of its ratings. The ratings derives strength from its experienced promoters, strategic location of the plant and established relationship with its major customers and suppliers. The ratings also note the improvement in financial performance in FY2022 and in 9MFY2023 albeit marginal moderation in profit margins and comfortable capital structure with moderate debt protection metrics in FY22. 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:

- Growth in scale of operations with improvement in profitability leading to improvement in cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in debt protection metrics marked by improvement in interest coverage ratio to over 3x
- Improvement in operating cycle leading to improvement in liquidity

Downward Factors:

- Decline in scale of operation coupled with decline 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

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 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 financial performance in FY2022 and in 9MFY2023, albeit marginal moderation in profit margins**

KIPL witnessed a significant y-o-y improvement in its revenue by~53% in FY22 to Rs.386.20 crore as compared to Rs.253.12 crore in FY21 mainly driven by increase in volume sales and average sales realization attributable to increase in domestic demand for steel products. Further, the company's newly set up fabrication/galvanization unit added to the increase in top line in FY22. Despite the increase in top line, the EBITDA margin moderated marginally from 7.83% in FY2021 to 7.40% in FY2022 due to substantial increase in raw material cost and overhead expenses. Nevertheless, on an absolute level, EBITDA increased from Rs.19.83 crore in FY2021 to Rs.28.56 crore in FY2022. PAT also increased from Rs.6.68 crore in FY2021 to Rs.7.89 crore in FY2022, though PAT margin moderated from 2.64% in FY2021 to 2.04% in FY2022. Gross Cash Accruals improved from Rs.10.39 crore in FY2021 to Rs.12.54 crore in FY2022. Further, KIPL reported an increase of ~48% in revenue in 9MFY23 to Rs.407.59 crore as compared to Rs.275.81 crore in 9MFY22 on the back of increase in domestic demand. The company's ability to sustain the growth in its top line without compromise in margins will be a key rating monitorable going forward.

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

  The capital structure of the company continues to remain comfortable with long term debt to equity ratio at 0.28x and overall gearing at 0.92x as on March 31, 2022 with marginal moderation driven by loan taken by the company for the recently concluded capex. Further, total indebtedness of the company as reflected by TOL/TNW stood comfortable at 1.28x as on March 31, 2022. The debt protection indicator of the company like interest coverage decreased from 2.92x in FY2021 to 2.12x in FY2022 due to increase in interest cost owing to increase in debt levels in FY2022 fiscal year. However, due to increase in operating profit, Total Debt/EBITDA improved and stood at 3.35x in FY2022 (4.66x in FY2021).

Key Rating Weakness:

- **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.

- **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 high at ~87% for the past twelve months ended December 31, 2022. The working capital cycle though improved from 185 days in FY2021 to 140 days in FY2022 yet remained high.

- **Exposure to 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

Liquidity Position: 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.2.23 crore in FY2023, Rs.7.95 crore in FY2024 and Rs.8.40 crore in FY2025. Further, the company has adequate gearing headroom on the back of its conservative capital structure. The average working capital limit utilisation also remained moderate at ~87% during the past twelve months ended December 2022 indicating moderate liquidity buffer. However, the liquidity position remains constrained 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	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	253.12	386.20
EBITDA	19.83	28.56
PAT	6.68	7.89
Total Debt	92.31	100.72
Tangible Net worth	101.46	109.35
EBITDA Margin (%)	7.83	7.40
PAT Margin (%)	2.64	2.04
Overall Gearing Ratio (x)	0.91	0.92

**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 23, 2022, 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 2022-23)				Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating		Date(s) & Rating(s) assigned in 2021-22		Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1	Cash Credit	Long Term	72.00 (Reduced from	IVR BBB-/ Stable	IVR BB+/Negative; ISSUER NOT	IVR BBB- / Stable	IVR BBB- / Stable	IVR BBB- / Stable	-

Sr. No.	Name of Instrument / Facilities	Current Rating (Year 2022-23)				Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating		Date(s) & Rating(s) assigned in 2021-22		Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
			Rs.78.00 crore)		COOPERATING* (February 09, 2023)	(December 16, 2021)	(November 17, 2021)	(August 18, 2020)	
2	Term Loan	Long Term	5.66 ^ (Reduced from Rs.9.00 crore)	IVR BBB-/ Stable	IVR BB+/Negative; ISSUER NOT COOPERATING* (February 09, 2023)	IVR BBB- / Stable (December 16, 2021)	-	-	-
3.	Letter of Credit	Short Term	25.00	IVR A3	IVR A4+; ISSUER NOT COOPERATING* (February 09, 2023)	IVR A3 (December 16, 2021)	IVR A3 (November 17, 2021)	IVR A3 (August 18, 2020)	-

**Issuer did not cooperate; based on best available information*
^Outstanding as on December 31, 2022

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Term Loan	-	-	January, 2026	5.66 * (Reduced from Rs.9.00 crore)	IVR BBB-/Stable
Cash Credit	-	-	-	72.00 (Reduced from Rs.78.00 crore)	IVR BBB-/Stable
Letter of Credit	-	-	-	25.00	IVR A3
Total	-	-	-	**102.66**	

**Outstanding as on December 31, 2022*

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-KhyatiIspat-mar23.pdf

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.