



## Press Release

### Khyati Ispat Private Limited

November 17, 2021

#### 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)	Reaffirmed
2.	Short Term Bank Facilities- Letter of Credit	5.00	IVR A3 (IVR A Three)	Reaffirmed
	<b>Total</b>	<b>84.50</b> <b>(Rupees eighty four crore and fifty lakhs only)</b>		

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Khyati Ispat Private Limited (KIPL) continues to derive 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 and comfortable capital structure with moderate debt protection metrics in FY21. 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 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 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 factor:

- Decline in scale of operation coupled with decline in profitability and cash accruals on a sustained basis



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- 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 products.

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

Since its incorporation, KIPL supplies its manufactured product to reputed companies like Transrail Lighting Ltd, Kalpataru Power Transmission Limited, Larsen & Turbo Limited, etc. Hence, the company has maintained longstanding relationship with reputed corporates. KIPL purchases raw material from Steel Authority of India Limited, Mangalam Alloy & Ispat Pvt Ltd, etc.

- **Stable financial performance**

The financial performance of the company continues to remain stable in FY21 with y-o-y improvement in its revenue by ~21% in FY21 to Rs.253.12 crore mainly driven by increase in sales realization attributable to high demand of steel products post lockdown period. The operating margin of the company improved marginally to 7.83% in FY21 from 7.65% in FY20 mainly backed by rise in sales realizations. Further, with improved EBITDA, the PAT margin also improved in FY21 to 2.59% from 1.96% in FY20. During H1FY22, the company has achieved a total operating income of ~Rs.166 crore. Further, KIPL has an order book of Rs.58.92 crore as on November 9, 2021 to be completed within next 3 to 4 months ensuring revenue visibility over the near term.



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

The capital structure of the company continues to remain comfortable with debt-to-equity ratio at 0.16x and overall gearing at 0.91x as on March 31, 2021 with marginal moderation driven by covid emergency loan taken by the company. Further, total indebtedness of the company as reflected by TOL/TNW continues to stand comfortable at 1.03x as on March 31, 2021. The debt protection indicator of the company like interest coverage has improved from 1.44x in FY20 to 1.71x in FY21 backed by higher absolute EBITDA. Further, Total Debt/EBITDA continues to remain moderate at 4.65x in FY21 (4.68x in FY20).

### **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 ~85-93% 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. To reduce volatility of raw material, the company follows back-to-back purchase of billets which leads to higher inventory throughout the year of around 90 to 100 days. Also the company allows credit period of around 45-60 days to its customers resulting in higher operating cycle of 186 days in FY21 as against 185 days in FY20. Average bank limit utilisation of the company remained moderate ~ 82% during the past 12-month period ended September 2021.

- **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.



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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)

**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 minimal debt repayment obligations. 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 ~82% during the past twelve months ended September 2021 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 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, Hiraipur, Raipur (Chhattisgarh) with installed capacity of 114000 MTPA.

### Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	208.62	253.12
EBITDA	15.95	19.83
PAT	4.19	6.68
Total Debt	74.58	92.28
Tangible Net worth	94.78	101.46
EBITDA Margin (%)	7.65	7.83
PAT Margin (%)	1.96	2.59



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For the year ended* / As On	31-03-2020	31-03-2021
Overall Gearing Ratio (x)	0.79	0.91

\*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, 2021 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 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	79.50	IVR BBB-/Stable	IVR BBB-/Stable (August 18, 2020)	-	-
2	Letter of Credit	Short Term	5.00	IVR A3	IVR A3 (August 18, 2020)	-	-

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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
<b>Total</b>				<b>84.50</b>	

### Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Khyati-ispate-lenders-nov21.pdf>

**Annexure 3: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

### Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Letter of Credit	Simple

**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](http://www.infomerics.com).