

Press Release

M/s. Kaypee Enterprises

December 17, 2018

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned	Rating Action
1.	Long Term Fund Based Facilities – Term Loan	116 (present outstanding *)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed and Withdrawn
	Total	116		

**Outstanding as on December 01, 2018*

Details of Facilities are in Annexure 1

Infomerics Valuation and Rating Pvt. Ltd had assigned a rating of **IVR BBB- with Stable Outlook (IVR Triple B minus with Stable Outlook)** to the Long Term Bank Facilities aggregating Rs.116 crores (present o/s) of M/s. Kaypee Enterprises. The ratings have been subsequently withdrawn at the request of the company and on receipt of no-objection certificate from the concerned lenders.

Detailed Rationale

The reaffirmation of rating derives comfort from the firm's long presence in the market and experienced promoters, presence of healthy mining reserves, resourcefulness of proprietor family, significant growth in operations and low gearing levels. However, the ratings are tempered by proprietary constitution of the firm, key man risks, customer concentration risk, regulatory risk, lease tenure expiry risk and substantial amount of advances to group companies. Sustainability of operations and profitability, working capital cycle management and regulatory landscape are the key rating sensitivities.

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Key Rating Drivers with detailed description

Key Rating Strengths:

Long presence in the market and experienced promoters

Mr. Prashant Kumar Ahluwalia, the proprietor has long experience in iron ore mining and beneficiation. His experience of around 30 years in iron ore mining industry has enabled to establish healthy relationship with customers and logistic providers.

Presence of healthy mining reserves

The mining deposits available with the firm are around 65 million tonnes. This is significantly more than the firm's annual capacity for 2 years, which is the tenor of the rated loan.

Resourcefulness of Proprietor family

The proprietor family of the firm is very resourceful given that another firm of the group was able to prepay Rs.225 crore of the term loans availed from banks. It further prepaid Rs.341 crore of the term loan availed from the banks in FY18 and FY19.

Significant growth in operations

The firm's sales increased by 57.19% during FY18 on account of increase in volumes and realisations.

Low gearing levels

The company has not availed any substantial debt during FY16-18. Thus, gearing and debt protection parameters are highly comfortable. The Term Loan of Rs 200 crore was availed in FY18 is for payment of dues as per Supreme Court directives to mining companies of which Rs.84 crore has been repaid out of internal accruals. Kaypee Enterprises has paid Rs.198.19 Crore to the Odisha Government with respect to this matter. The overall gearing for FY18 is comfortable at 0.43x.

Key Rating Weaknesses:

Proprietary Constitution of the firm

The firm KJS is a proprietary firm with Mr. Prashant Kumar Ahluwalia being the proprietor. The risk of withdrawal of capital always rests with this type of constitution.

Key Man Risks

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The firm is run by Mr. Prashant Kumar Ahluwalia who is the brother of KJS Ahluwalia. The entire management and decision making is concentrated with Mr. Prashant Kumar Ahluwalia and They do not appear to have succession plan. This imparts keyman risk to the firm.

Regulatory risk

The mining sector is highly prone to regulatory risk. The firm's mine was closed during May14-June 15 on account of Supreme Court's order. Further as per the Supreme Court order, the firm had to pay the Govt. of Odisha Rs.198.19 crore for illegal mining during 2001-10.

Lease tenure expiry risk

The mining lease of the firm is to expire in 2020. However, the management has indicated that it will be extended by five years. The term loan is however scheduled to be paid by December 2019, i.e. before the expiry of the lease tenure.

Substantial amount of advances to group companies

The firm has advances of Rs.246.29 crore to sister companies of the Alhuwalia group. This works to 38.57% of the tangible net worth as at March 31, 2018.

Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The firm has been earning healthy EBIDTA and Gross Cash Accruals over the past few years. It has prepaid term loans of Rs.84crore in FY18 and FY19. This provides fair degree of liquidity comfort to the company.

About the Company

M/s Kaypee Enterprises (Kaypee) is a proprietorship firm of Shri Prashant Kumar Ahluwalia commenced business in the year 1994. Sri Prashant Kumar Ahluwalia is younger brother of Shri Kamaljeet Singh Ahluwalia. This firm is part of the KJS group. He has varied experience of more than 30 years in manufacturing and more than 25 years in the field of mining, iron, steel manufacturing and power. He acquired Thakurani Iron ore Mines of 228.04 hectare Million, at

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village ThakuraniBarbil, Keonjhar Odisha in the year 1986. Presently Mining annual production Capacity is 5.5 Million Tonnes. As on date the deposits are 65.47 Million Tonnes. The Mining Lease is going to expire on March 31, 2020, however the management has indicated that it may be extended for another 5 years.

Financials (Standalone)

(Rs. crores)

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	761.72	1,197.32
EBITDA	298.39	368.05
PAT	184.37	236.34
Total Debt	202.76	275.77
Tangible Net worth	416.97	638.56
EBITDA Margin (%)	39.17	30.74
PAT Margin (%)	24.20	19.51
Overall Gearing Ratio (x)	0.49	0.43

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2018-19)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund based limits	Long Term	116 (present outstanding *)	IVR BBB-/Stable Outlook (Reaffirmed and Withdrawn)	IVR BBB-/Stable Outlook (April03, 2018)	--	--	--

*Outstanding as on December 01, 2018

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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 – Term Loan	December 2017	10%	December 2019	116 (present outstanding *)	IVR BBB- /Stable Outlook (Reaffirmed and Withdrawn)

**Outstanding as on December 01, 2018*