

RATING RATIONALE

27 Oct 2020

Kisaan Steels Private Limited

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 11.45 Crores of Kisaan Steels Private Limited (KSPL or ‘the company’)

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Sept, 2019)	Present
Fund based	11.65	11.05	Long Term	BWR BB+ (Stable) Upgrade	BWR BB+ (Stable) Reaffirm
Non Fund based	0.40	0.40	Short Term	BWR A4+ Upgrade	BWR A4+ Reaffirm
Total	12.05	11.45	INR Eleven Crores And Forty Five Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

BWR has reaffirmed the long term & short term bank loans of **Kisaan Steels Private Limited** at a rating of BWR BB+ (Stable) / A4+. The assigned ratings reflect the vastly experienced management/promoters who have a long track record in the manufacturing of industrial equipment and maintaining a long term relationship with some of very reputed companies as their clients. The ratings also take strength from the company’s moderate financial risk profile as reflected in its networth of Rs.18.36 Crores and gearing of 0.81 times as on 31 March 2020 (Prov). The rating has also positively factored the good coverage indicators of the company.

The rating is, however, constrained by the elongated conversion cycle due to high level of inventory and receivables as well as dip in sales in FY20 as compared to FY19. The impact of COVID-19 pandemic has also been factored which has hampered the production and demand in the current financial year.

The ‘stable’ outlook indicates a low likelihood of a rating change in the medium term. BWR expects that the company’s performance is likely to be maintained over the next few years.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced promoters:** The promoters of the company have over four decades of

experience in this line of business which has benefited the company in establishing a long term relationship with its suppliers and customers.

- **Moderate financial risk profile:** The company had a gearing (Total debt/TNW) of 1.14 times as on 31 Mar 2019 which has further improved to 0.81 times as on 31 March 2020. The overall gearing (TOL/TNW) is also low at 0.86 times as on 31 March 2020. The Networth of the company is moderate at Rs.18.36 Crores as per the provisional financials of FY20. TNW is further supported by the Unsecured loans of Rs.6.05 Crores from the directors.
- **Strong debt protection metrics:** The debt protection metrics i.e. ISCR & DSCR were strong at 3.23x & 2.19x respectively as on 31 Mar 2020 (provisional).

Credit risks:

- **Elongated Conversion Cycle:** The cash conversion cycle of the company stood at 165 day for FY20 which remains to be on a higher side mainly due to a high inventory holding period of 158 days. The long conversion cycle is attributed to the nature of the business the company is in.
- **High level of competition in a fragmented market:** The steel forging industry in Northern India has many organized and unorganized players leading to a higher competition in the market with lower margins.
- **Impact of COVID-19 pandemic:** Due to the coronavirus outbreak in the month of March and the subsequent lockdown in the entire country since March 2020, the businesses have been impacted quite severely. It may take a while for the demand and supply dynamics to come to normal levels which may impact the revenue stream of the company in the present fiscal.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of the company. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: Growth in the company's top line in the coming years while maintaining/improving the profitability, improvement in the working capital cycle.

Negative: Any substantial fall in the company's revenue and delay in the servicing of the bank loans.

LIQUIDITY POSITION : Adequate

The company generated Net Cash Accruals of Rs.3.30 Crores for FY20 as compared to Rs.3.55 Crs. in FY19. The Cash accruals generated are adequate to meet the short term debt repayment obligations. The Current ratio of the company was 2.37 times for FY20 as compared to 1.60 times



for FY19 suggesting its ability to meet its short term obligations. The Cash Credit limit utilization level was 50% in the last 6-7 months as per the bank account statements provided by the company. Apart from a Cash Credit facility of Rs.9.05 Crs availed from Canara Bank, the company is also availing various Business Loans / LAP facilities from Private Banks & NBFCs to meet its working capital requirements. A large part of company's working capital is tied up in inventory & receivables due to the nature of the business, the company's GCA (Gross Current Assets) were Rs.28.22 Crs as on 31 March 2020 and GCA days were 245 days (Inventory of 158 days & receivables of 87 days). Although there are no large repayments during the year, the nature of business of the company is such that it has to maintain a large inventory and the payments are also stuck for days. On the basis of availability of unutilized bank lines, funding support by way of Unsecured loans from promoters and moderate cash accruals, we believe that the company's liquidity position will remain adequate in the short to medium term.

COMPANY'S PROFILE

Uttar Pradesh-based **Kisaan Steels Pvt Ltd** was incorporated in January 1973. The company is currently being managed by its directors Mr Nitin Choudhary and Mr Sahil Choudhary and is engaged in the manufacturing of industrial machinery parts (used in sugar mill, thermal power, cement industry, etc). The manufacturing facility of the company is located in Ghaziabad, Uttar Pradesh.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY20	FY19
Result Type		Provisional	Audited
Operating Income	₹ Crores	52.07	60.79
EBITDA	₹ Crores	5.72	6.13
PAT	₹ Crores	1.50	1.63
Tangible Net worth	₹ Crores	18.36	16.86
Total Debt / Tangible Net worth	Times	0.81	1.14
Current Ratio	Times	2.37	1.60

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument / Facilities	Current Rating (October 2020)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	27 Sep 2019	26 Jun 2018	05 Jun 2017
Fund Based	Long Term	11.05	BWR BB+ (Stable) Reaffirm	BWR BB+ (Stable) Upgrade	BWR BB (Stable) Reaffirmed	BWR BB (Stable) Assigned
Non fund Based	Short Term	0.40	BWR A4+ Reaffirm	BWR A4+ Upgrade	BWR A4 Reaffirmed	BWR A4 Assigned
Total		11.45	INR Eleven Crores And Forty Five Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Rating Criteria for Manufacturing Companies**

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Kisaan Steels Private Limited-ANNEXURE I
Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Canara Bank	OCC/ODBD	9.05	-	9.05
2		Sub limit: ODBD	(5)	-	(5)
3		GECL	1.10	-	1.10
4		WCDL	0.90	-	0.90
5		BG	-	0.40	0.40
TOTAL					11.45

Total Rupees Eleven Crores and Forty Five Lakhs only.

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