

April 07, 2022

## Kavi Commercial Company Limited: Ratings reaffirmed and withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Fund-based, Cash Credit	2.0	2.0	[ICRA] BB(Stable); reaffirmed and withdrawn
Short Term, Non-fund Based Limits	63.0	63.0	[ICRA] A4; reaffirmed and withdrawn
<b>Total</b>	<b>65.0</b>	<b>65.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings of Kavi Commercial Company Limited (KCCL) on the Rs. 65.0 crore bank facilities have been withdrawn at the request of the company and upon receipt of no objection certificates from the bankers, in accordance with ICRA's policy on withdrawal and suspension of rating of bank facilities.

For arriving at the ratings, ICRA has taken a consolidated view of KCCL along with its Group companies (as mentioned in Annexure-2), together referred to as the Viraj Group (the Group), given the close business, financial and managerial linkages among them.

The reaffirmation of the ratings continues to derive comfort from the extensive experience of the promoters in the iron and steel trading business and their established relationships with reputed international suppliers, which ensure smooth supply of traded steel. The management continues to follow a conservative approach while doing business by holding minimal inventory, which limited the price risks in FY2022. Additionally, aided by inventory gains in H1 FY2022, the Group reported a YoY improvement in its profitability despite the reduced scale of operations.

The ratings remain constrained by the Group's sharp fall in revenues in the last three fiscals including in 9M FY2022 amid high landed cost of imported steel (vis-à-vis the domestic price), which provided limited remunerative opportunities to traders including the Viraj Group. Despite maintaining low inventory, the Group remains exposed to price risks as a large part of its inventory is not backed by firm orders. Besides, the Group remains exposed to significant foreign exchange (forex) fluctuation risks, given its dependence on imports for its traded steel purchases. The Group also remains sensitive to the counterparty credit risks as well as to the pricing pressure emanating from the intense competition within the steel trading industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Viraj Group will continue to benefit from favourable domestic steel demand and extensive experience of its promoters.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in iron and steel trading business** – The Viraj Group trades in flat steel products such as hot rolled (HR) and cold rolled (CR) coils, sheets, plates, and steel bars, among others. The promoters have an extensive experience of over four decades in the steel trading business.

**Established relationships with reputed international suppliers** – The extensive experience of the promoters in the steel trading business has helped the Group in establishing relationship with reputed overseas suppliers, which ensures regular supply of traded steel. More than 80% of the Group’s purchases are in the form of imports from countries like Japan, South Korea, and China.

## Credit challenges

**Sharp fall in turnover during the last three years, albeit improved profitability in 9M FY2022** – The Viraj Group’s operations witnessed a continued steep decline since FY2019 with the overall slowdown in the economy multiplied by the impact of the pandemic in FY2020. The Group’s turnover declined 66% on a YoY basis to Rs. 86.7 crore in FY2021 from Rs. 251.8 crore in FY2020. Further, in 9M FY2022, the Group reported turnover of Rs. 26.5 crore, translating into an annualised decline of 58% in FY2022. The fall in turnover can be attributed to the continued conservative approach of the management since the onset of the pandemic. However, the OPM improved to 16.9% in 9M FY2022 against -2.3% in FY2021 due to inventory gains made during this period.

**Significant exposure to forex risk** – The Viraj Group is significantly exposed to forex risks due to its dependence on imports for the traded steel procurement. Although the Group hedges a large part of its forex exposure, a steep depreciation in the INR impacted its financial performance in the past, which led to operating losses.

**Exposure to price risks and intensely competitive nature of the steel trading industry** – The Viraj Group is exposed to price risks, given the cyclicity inherent in the steel industry. The price risks are accentuated by the freehold nature of the inventory maintained by the Group. Moreover, the intensely competitive nature of the steel trading industry exerts pricing pressure and keeps its margins under check.

**Exposure to counterparty credit risks** – As on December 31, 2021, ~89% of the Group’s receivables amounting to Rs. 3.1 crore remained outstanding for more than one year. While the Group secures its receivables through post-dated cheques, the possibility of write-offs due to weak financial health of any of its customers cannot be ruled out.

## Liquidity position: Stretched

The Group’s liquidity remains stretched owing to declining sales. The Group reported an unencumbered cash balance of Rs. 0.1 crore and liquid investments of Rs. 59.3 crore as on December 31, 2021. The absence of long-term debt repayment obligations provides moderate comfort to the Group’s liquidity position. ICRA also notes the favourable working capital cycle of the Group, wherein the credit period offered to customers ranges from 30 to 120 days and its inventory holding period is about 30 days. The Group’s policy of parking customer payments in liquid investments supports its overall liquidity profile.

## Rating sensitivities

**Positive factors** – ICRA may upgrade the Viraj Group’s ratings if there is a significant improvement in demand, leading to higher traded volumes and steel prices and in turn an improved financial risk profile. A sustained improvement in its interest coverage to above 2.5 times would also be a positive factor.

**Negative factors** – Pressure on the Viraj Group’s ratings may arise in case of any sharp correction in steel prices and/or a sharp depreciation in the INR, resulting in inventory or forex losses as the Group imports most of its steel requirements.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">ICRA Policy on Withdrawal of Credit Ratings</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KCCL, along with Group companies, Vinayaga Marine Petro Limited (VMPL) and Viraj Impex Private Limited (VIPL), given the close business, financial and managerial linkages among them.

## About the company

Incorporated in 1985 as a trading concern, KCCL imports and trades in steel products. KCCL, along with other Group companies, Viraj Impex Private Limited (VIPL, established in 1988) and Vinayaga Marine Petro Limited (VMPL, established in 1997), import flat products such as HR and CR coils, sheets, plates, steel bars, among others. These are then sold to local end-users and resellers. The promoters of the Viraj Group have over four decades of experience in the steel industry and have established long-term relationships with various suppliers. All the three Group companies are co-promoted by the Didwania family.

## Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Provisional)
Operating Income (Rs. crore)	251.8	86.7	26.5
PAT (Rs. crore)	-2.9	1.1	3.6
OPBDIT/OI (%)	-3.2%	-2.3%	16.9%
PAT/OI (%)	-1.2%	1.3%	13.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.0	0.0	0.0
Total Debt/OPBDIT (times)	-0.5	-0.6	0.0
Interest Coverage (times)	-2.2	-4.5	17.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2019	Date & Rating in FY2018	
						07-Apr-2022	30-Mar-2021	13-Apr-2020	14-Mar-2019	14-Feb-2018
1	Cash Credit	Long Term	2.0	-	[ICRA] BB(Stable), withdrawn	[ICRA] BB(Stable)	[ICRA] BB(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)	
2	Letter of Credit	Short Term	63.0	-	[ICRA] A4, withdrawn	[ICRA] A4	[ICRA] A4	[ICRA] A3	[ICRA] A3+	

Source: Company data

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term, Fund Based Limits	Simple
Short Term, Non-fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	-	NA	2.0	[ICRA]BB (Stable), withdrawn
NA	Letter of Credit	NA	NA	NA	63.0	[ICRA] A4, withdrawn

Source: Company data

**Annexure 2: List of entities considered for consolidated analysis:**

Company Name	Consolidation Approach
Viraj Impex Private Limited	Full Consolidation
Vinayaga Marine Petro Limited	Full Consolidation
Kavi Commercial Company Limited	Full Consolidation

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