KIC Metaliks Limited

January 05, 2024

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	93.75 (Reduced from 105.00)	CARE BBB+; Stable	Reaffirmed
Long-term / Short-term bank facilities	40.00	CARE BBB+; Stable / CARE A3+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of KIC Metaliks Limited (KML) continue to derive strength from its experienced promoters, satisfactory financial performance in FY23 (refers to the period from April 01 to March 31) and H1FY24 albeit moderation in profitability margins, presence of backward integration and process improvement measures, satisfactory capital structure, and moderate capacity utilisation in FY23 with improvement witnessed in H1FY24.

The ratings, however, remain constrained on account of exposure to commodity price fluctuation risk, cyclicality in the steel industry with intense competition from the unorganized sector and presence in single product segment of the steel value chain.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The ability of the company to increase its scale of operations and its operating margin beyond 14% on a sustainable basis.
- Maintenance of overall gearing ratio below 1x and improvement in Total Debt (TD)/PBILDT ratio below 1.5x on a sustained basis.

Negative factors

- Moderation in the average sales realisation from the current levels, on a sustained basis, thereby deteriorating the financial performance of the company.
- Any substantial debt funded capex resulting in deterioration in capital structure with overall gearing going above 1.00x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that entity is likely to sustain its comfortable financial risk profile backed by favourable demand scenario in the near to medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters

Mr. Radhey Shyam Jalan, CMD of KML, looks after the day-to-day affairs of the company, with support from a team of experienced professionals. He is a Chartered Accountant with more than a decade of experience in iron and coal sector.

Stable financial performance in FY23 and H1FY24 albeit moderation in profitability margins

The total operating income witnessed a y-o-y growth of around 45.47% in FY23 backed by increase in sales volume of pig iron along with slight increase in sales realisation. However, the PBILDT margin moderated from 12.68% in FY22 to 5.84% in FY23 on account of inventory loss booked and increase in raw materials cost mainly coke and coal which could not be passed on to the customers. PAT margin moderated to 2.48% in FY23 as against 7.50% in FY22 which was in line with moderation in PBILDT margin. The company earned GCA of Rs.41.19 crore vis-à-vis debt repayment obligation of Rs.23.39 crore in FY23.

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

In H1FY24, the total operating income witnessed growth of 30% y-o-y compared with H1FY23 to Rs.428.35 crore. However, PBILDT margin witnessed moderation to 3,75% in H1FY24 compared with 8.84% in H1FY23. Given H2 being a better cycle for steel industry compared with H1, the performance is expected to improve going forward.

Satisfactory capital structure and debt protection metrics

The capital structure of the company is comfortable marked by improvement in overall gearing from 0.98x as of March 31, 2022 to 0.72x as on March 31, 2023, on account of repayment of term loan and ICD's along with accretion of profit to reserve. The entire ICD of Rs.15.50 crore has been repaid during the year. With no debt-laden capex plans of the company, the overall gearing is expected to improve going forward. The debt coverage indicator marked by Total debt/ GCA moderated slightly to 3.11x as on March 31, 2023, as compared to 2.69x as on March 31, 2022, due to decline in cash accruals, however, the same continued to remain satisfactory. The PBILDT interest coverage ratio however, improved to 3.91x in FY23 as against 3.44x in FY22 on account of decline in interest cost.

Presence of backward integration and process improvement measures

While iron ore, coke and coal are the basic raw materials for KML, it does not have any captive mines for them. It, however, has facilities to manufacture intermediate feedstock namely sinters from the sinter plant (3,60,000 MTPA). KML has a 4.7 MW waste heat-based power plant for captive consumption to tap the waste gases generated during the production of pig iron and convert it in effective power generation to optimize the power cost. The company also has a Pulverised Coal Injection (PCI) system which helps in improving efficiency in production and reduction of costs.

Moderate capacity utilisation in FY23 amidst further improvement in H1FY24

The capacity utilization (CU) of the pig iron plant improved from 50% in FY22 to 68% in FY23 and further increased to 90% in H1FY24 backed by completion of the refurbishment of mini blast furnace along with improved demand.

Key weaknesses

Exposure to commodity price fluctuation risk

The raw material (mainly iron ore lumps, coal/coke) is the major cost driver (constituting about around 89% of total cost of sales during FY23) for the company. The prices of iron ore; coal and coke has witnessed sharp volatility in the past making KML's profitability margins susceptible to input price fluctuation. Though the prices of finished goods move in tandem to that of the raw materials, there is a time lag which exposes the company to commodity price fluctuation.

Cyclicality in the steel industry with intense competition from the unorganized sector with presence in single product segment

The steel industry is the end user of KML's product, i.e., pig iron. Hence, the business is highly dependent on the fortunes of the steel industry. The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. The producers of steel construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

Liquidity: Adequate

Adequate liquidity marked by GCA of Rs.41.19 crore vis-à-vis debt repayment obligations of Rs.7.89 crore in FY23. In addition to the above-mentioned debt repayment obligation, the company has fully paid of ICDs of Rs.15.50 crore. The average utilization of its bank facilities stood at ~86% to in last 12 months ended November 2023, supported by above unity current ratio. The working capital cycle of the company was comfortable and stood at 55 days in FY23 (50 days in FY22). In FY24, the company is expected to generate sufficient cash accruals against debt repayment obligation of Rs.7.85 crore.

Applicable criteria

Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Manufacturing Companies
Steel
Policy on default recognition
Rating Outlook and Credit Watch

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Pig Iron

KML was incorporated on August 26, 1986 as Prudential Marketing Private Limited. The name of the company was later changed to its existing name in September 2003. Currently, KML is engaged in manufacturing of pig iron with an installed capacity of 2,35,000 MTPA (enhanced from 1,65,000 MTPA through de-bottlenecking) in Durgapur and trading of coking coal & Low Ash Metallurgical Coke (LAMC). For manufacturing of pig iron, the company operates a 3,60,000 MTPA Sinter Plant at its existing plant location and a 4.7 MW waste heat based power plant for captive consumption. Mr. Radhey Shyam Jalan, CMD of KML, looks after the day-to-day affairs of company, with support from a team of experienced professionals/staffs.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	515.06	749.27	428.35
PBILDT	65.30	43.74	16.05
PAT	38.65	18.55	2.66
Overall gearing (times)	0.98	0.72	0.75
Interest coverage (times)	3.44	3.91	2.86

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	75.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	March 2027	18.75	CARE BBB+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	40.00	CARE BBB+; Stable / CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	75.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (31-Jan-23) 2)CARE BBB+; Stable (30-May-22)	1)CARE BBB+; Stable (01-Dec-21)	1)CARE BBB; Negative (04-Sep-20) 2)CARE BBB; Negative (11-Aug-20)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (29-Sep-22) 2)CARE A3+ (30-May-22)	1)CARE A3+ (01-Dec-21)	1)CARE A3+ (04-Sep-20) 2)CARE A3+ (11-Aug-20)
3	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (01-Dec-21)	1)CARE BBB; Negative (04-Sep-20) 2)CARE BBB; Negative (11-Aug-20)
4	Fund-based - LT-Term Loan	LT	18.75	CARE BBB+; Stable	-	1)CARE BBB+; Stable (31-Jan-23) 2)CARE BBB+; Stable (30-May-22)	-	-
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	40.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (31-Jan-23) 2)CARE BBB+; Stable / CARE A3+ (30-May-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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