Kalyani Steels Limited

December 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	276.75 (Reduced from 331.99)	CARE AA; Stable	Reaffirmed
Short Term Bank Facilities	600.00 (Enhanced from 500.00)	CARE A1+	Reaffirmed
Commercial Paper	75.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Kalyani Steels Limited (KSL) continues to derive strength from the experience and resourcefulness of its promoters, the Pune-based Kalyani Group, and the four-decade-long and established track record of KSL in manufacturing quality engineering grade carbon and specialty steel products. The company is part of backward integration process for the Kalyani group, primarily supplying to Bharat Forge (BFL, rated CARE AA+, Stable/ CARE A1+) and Kalyani Technoforge Limited (KTFL, rated CARE AA-, Stable/CARE A1+). Sales to group companies have constituted around 55-60% of net sales. The ratings further consider KSL's strong financial risk profiles marked by the robust capital structure, comfortable debt coverage metrics and strong liquidity profile.

Over the past decade (FY14 to FY24, FY refers to the period from April 01 to March 31) the company has consistently demonstrated strong adeptness to the changing business dynamics and has reported healthy profitability levels, despite fluctuations in commodity prices. During this period, the company has earned an average PBILDT/Tonne (profit before interest, lease, rentals, depreciation, and taxation per tonne) of around ₹10,300 per tonne, with FY24 recording the peak PBILDT/Tonne of ₹14,497. Sales volumes for the company remained stable at around 2.30-2.50 lakh tonnes per annum.
Net sales for the company has grown by 3.1% in FY24 with volumes increasing by 3.8% while modest decline witnessed in price realisations. The company commissioned the coke oven plant in March 2023, the full cost benefit of which has been visible in FY24 and H1FY25. The company has recorded, PBILT/Tonne of more than ₹14,000 during FY24 and H1FY25 as against ₹9,722/tonne in FY23. The company had healthy PBILDT margins of 18-20% during the same period. Resultantly, KSL has delivered gross cash accruals of ₹312.73 crores in FY24 and at ₹150.25 crores in H1FY25.

The company has a strong financial risk profile as indicated by overall gearing of 0.39x and interest coverage of 15.01x for FY24.The company has adequate cash generation against the annual term loan repayments resulting in healthy debt-service coverage ratio (DSCR). The net debt has been consistently negative over the past few fiscals. However, the company has turned net debt positive at ₹112.46 crores as on Mar 31, 2024 due to the acquisition of the assets of Kamineni Steel & Power India Private Limited in liquidation process in February 2024 amounting to an outflow ₹505 crores during FY24. The entire acquisition was funded through internal accruals and using the surplus cash and liquid investments. Even after such large acquisition, KSL had free cash and bank balance of ₹539.84 crore as on March 31, 2024 and ₹589.36 crore as on September 30, 2024.

On February 23, 2024, KSL signed Memorandum of understanding (MoU) with the Government of Odisha of around ₹11,750 crores expressing an intent to setup 0.7 MTPA Integrated Advanced Specialty Steel and Titanium metal/alloy manufacturing Complex. However, CARE Ratings Limited (CARE Ratings) notes that the same is at discussion stage and the concrete plans over viability and funding for the actual capex are expected to be finalized over next 1 year. Any large size debt-funded capex in this regard, would be a key rating monitorable.

The rating strengths are tempered by, susceptibility to volatility in raw material prices & foreign exchange rates, and lack of any backward integration in the form of captive iron ore and coal mines. Additionally, the company is exposed to the cyclicality in the end-use industry, primarily the automotive sector which contributes around 80% of the sales.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors - Factors likely to lead to positive rating action

- Significant and sustained improvement in the scale of operations on the back of improvement in the credit profile of the group companies with which KSL shares substantial trade linkages.

Negative factors - Factors likely to lead to negative rating action

- Decline in total operating income and/or profitability leading to PBILDT being below ₹8000/tonne on a sustained basis
- Deterioration in the credit profile of the group companies with which KSL shares substantial trade linkages.
- Delayed realisation of debtors from the group companies.
- Increased financial leverage indicated by overall gearing ratio of 1.0x or more.

Analytical approach: Standalone. However, linkages with group companies, which are integral and strategically important to the operations of KSL, have been considered.

Outlook: Stable

Stable outlook reflects that the rated entity is likely to sustain stable operating performance owing to continued strong demand for its products. The company is expected to sustain its strong financial risk and liquidity profile amidst healthy cash flow generation from the operations.

Detailed description of key rating drivers:

Key strengths

Strong promoter group coupled with long track record in iron and steel industry

KSL is a part of the Kalyani group and is spearheaded by B.N Kalyani in the strength of Chairman. He is also the Chairman and Managing Director (CMD) of Bharat Forge Limited. The Kalyani group, established in mid-1960s, has wide capabilities across varied industries, including engineering, automotive, industrial, renewable energy, urban infrastructure and specialty chemicals. In a span of more than four decades, KSL has grown from being a primary iron and steel manufacturer to a preferred steel supplier for engineering, auto, seamless tubes, etc., companies mainly catering to forging industry, serving the auto and allied sectors. The promoters are supported by a team of professionals, including RK Goyal (MD) and Balmukand Maheshwari (CFO) who are associated with KSL since a decade.

Established selling arrangements

KSL is promoted as backward integration unit of the Kalyani group from which majority of the steel requirements for the group companies is met through. Moreover, long-standing relationship with major OEMs along with approved vendor status continues to garner KSL with repeat orders. The Kalyani group together accounted for around 55.51% of the net sales in FY24. The customer concentration is high with significant revenues derived from group companies (Bharat Forge Limited and Kalyani Technoforge Limited). However, the company has large customer base and has repeat orders from external customers as well.

Steady performance along-side healthy profitability

The total operating income (TOI) reached ₹1960 crore in FY24 and ₹953.57 crore in H1FY25. In accordance with the industry scenario, where-in majority of the steel players have seen fall in price realisations during H1FY25, the blended sales realisations for KSL has remained healthy at ₹74,592/tonne in H1FY25. Coal, coke and coking coal (which contribute around 50-60% of overall raw material cost) witnessed 14% reduction in the prices on a per tonne basis. This is primarily due to addition of the coke oven plant, resulting in increased operational efficiency for steel production. This has been partly offset by the increase in the prices of iron ore and fines (which contribute around 20% of the overall raw material cost) by 11% in FY24 on per tonne basis. Henceforth, the PBILDT margins of KSL improved from 12.87% in FY23 to 18.79% in FY24. Resultantly, the profit after tax (PAT) margins also improved to 12.62% for FY24 and similar healthy margins have been maintained for H1FY25 as well at 12.41%.

Arrangement with suppliers for procurement of raw material albeit absence of long-term contracts continues

KSL has diversified raw material procurement sources wherein raw materials is procured both from the domestic and overseas market. The key raw materials used by KSL include coking coal, iron ore/iron ore fines and ferro alloys. Although majority of the raw materials have been sourced from few suppliers representing concentration risk, the risk is partially mitigated as the company takes quotes from various suppliers before placing orders. KSL has not entered into any long-term contracts with the suppliers, though, during periods of volatility in prices of imported coking coal, KSL has been able to pass on the increase in raw material prices to its customers, albeit with a lag effect which may have some effect on profitability during the short run.

Robust capital structure and comfortable debt coverage metrics

The capital structure of KSL remained robust with debt-to-equity ratio and overall gearing (including LC backed creditors) of 0.10x and 0.39x, respectively, as on March 31, 2024 (as against 0.14x and 0.42x for March 31, 2023). The term loan comprises foreign currency loan availed by the company during FY22 to fund the projected capital expenditure of ₹211 crore. The fund-based working capital utilization is also minimal. The net worth of the company stood at ₹1,691.18 crore as on March 31, 2024, as against ₹1,489.16 crore as on March 31, 2023. Furthermore, KSL continues to have healthy debt coverage indicators with PBILDT interest coverage and total debt/gross cash accrual (TD/GCA) of 15.01x and 2.09x in FY24 as against 8.70x and 2.97x in FY23. Additionally, the company has managed the acquisition of ₹504.72 crores of assets of Kamineni Steel & Power India Private Limited in liquidation in FY24. However, these assets are currently non-operational and are expected to be utilized during the future capital expansion plans of the company.

Key weaknesses

Cyclicality and competition in the end-use industry

The producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry. The steel industry is highly competitive with presence of various organised and unorganised players and expanding applications of steel products. KSL generates about 80% of the revenue from auto segment which is also affected by economic cycles. Also, the customers of KSL remain vulnerable to pricing pressures from large OEMs, which in turn may have adverse impact on profitability margins. CARE Ratings notes that KSL, being in niche segment providing specialty steel, and supplying mainly to the group entities has remained relatively immune to the cyclicality in the industry.

Susceptibility to volatility in raw material prices and forex risk

Raw material accounts for one of the major cost components for KSL. The key raw materials used by the company are iron ore/iron ore fines, coking coal, fluxes like limestone and dolomite, ferro alloys and solid charge. Coking coal and iron ore prices fluctuate globally on a demand-supply basis which generally impacts the profitability margins. Though the company has pass-through arrangements with the customers, on occasion there is a risk of lag in the mechanism. Furthermore, some of the raw material requirements (coking coal) is imported, thus exposing to foreign currency exchange risk. However, the risk is mitigated to an extent as the company has started entering into forward contracts to manage this risk (around 75% exposure has been hedged as on Nov 30, 2024).

Liquidity: Strong

KSL is expected to generate healthy operating cash flows against minimal repayment obligations over the next two years. Furthermore, KSL had free cash and bank balance of ₹589.36 crore as on September 30, 2024 and ₹539.84 crore as on March 31, 2024. Additional liquidity cushion is available in the form of largely unutilised lines of credit. The average fund-based working capital utilisation and non-fund-based limit utilisation for the last 12 months ended October 2024 was around 7% and 17%, respectively. This was majorly on account of managing working capital requirements through internal accruals and creditors' support backed by letter of credit.

Assumptions/Covenants Not applicable

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	**Greenhouse gas emissions: High** The GHG emissions have been 0.61 mn metric tonnes for scope-1 and 8.28k tonnes for scope-2. However, such emissions are common inherently in the steel manufacturing industry. The Company used 3.98 Cr units of renewable energy to replace equivalent number of units from Karnataka Power Transmission Corporation Limited (KPTCL) Grid Power. **Energy conservation: Adequate** Energy intensity (total energy consumption by turnover) has been increased by 7% in FY24 as compared to FY23.
Social	**Safety standards: Adequate** Adequate standards are maintained as indicated by nil fatalities and zero lost-time injury frequency rate over the past 3 fiscals. **Employee attrition: Moderate** The turnover rate for permanent employees has been 22.85% for FY24 vs 25.75% in FY23 and 18.03% in FY22. **Gender diversity: Low** Gender diversity is low (4.6% females) which is inherent across the steel industry. The female representation in key management personnel and Board of directors is 12.6% and 15.38% respectively as on Mar 31, 2024.
Governance	**Board independence: Adequate** 46% of the board comprises of independent members as on Mar 31, 2024. **Board attendance: Good** The attendance rate for 83.3% of the independent members was 100% for the 5 meetings held during fiscal 2024.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Incorporated in 1973, KSL is a part of the Pune (Maharashtra)-based Kalyani group. The company is spearheaded by B. N Kalyani, who is the chairman of the Kalyani Group of companies. The manufacturing facility of KSL are located at Ginigera village, dist. Koppal (Karnataka). KSL is a leading manufacturer of forging and engineering quality carbon and alloy steel, which caters to the requirements of various segments, viz., automotive, oil & gas, energy, bearings, seamless tubes, railways, etc. The company is a preferred steel supplier for engineering, automotive, seamless tube and primary aluminium industry used in the automobile and engineering industries. KSL has a state-of-the-art integrated manufacturing facility spread across 375 acres located at Hospet. The total installed capacity (Hospet Steels Limited) is around 7 lakh metric tonne per annum (MTPA). There is a strategic alliance between KSL and Mukand Limited (ML, part of the Bajaj group) where the manufacturing facilities are shared, with KSL holding 41.38% of the assets and ML holding the remaining.

Brief Financials (₹ crore)	FY2023 (A)	FY2024 (A)	H1FY2025 (UA)
Total operating income	1,899.30	1,960.32	953.57
PBILDT	244.50	368.35	175.34
PAT	167.03	247.46	118.36
Overall gearing (times)	0.42	0.39	-
Interest coverage (times)	8.70	15.01	19.73

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	Proposed	-	7 to 365 days	75.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	150.00	CARE AA; Stable
Fund-based/Non-fund-based-Short Term		-	-	-	300.00	CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	300.00	CARE A1+
Term Loan-Long Term		-	-	31-03-2026	126.75	CARE AA; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Dec-23)	1)CARE AA; Stable (06-Dec-22)	1)CARE AA; Stable (17-Jan-22) 2)CARE AA; Stable (07-Dec-21)
2	Non-fund-based - ST-BG/LC	ST	300.00	CARE A1+	-	1)CARE A1+ (05-Dec-23)	1)CARE A1+ (06-Dec-22)	1)CARE A1+ (17-Jan-22) 2)CARE A1+ (07-Dec-21)
3	Fund-based/Non-fund-based-Short Term	ST	300.00	CARE A1+	-	1)CARE A1+ (05-Dec-23)	1)CARE A1+ (06-Dec-22)	1)CARE A1+ (17-Jan-22) 2)CARE A1+ (07-Dec-21)
4	Commercial Paper-Commercial Paper (Standalone)	ST	75.00	CARE A1+	-	1)CARE A1+ (05-Dec-23)	1)CARE A1+ (06-Dec-22)	1)CARE A1+ (07-Dec-21) 2)CARE A1+ (07-Oct-21)
5	Term Loan-Long Term	LT	126.75	CARE AA; Stable	-	1)CARE AA; Stable (05-Dec-23)	1)CARE AA; Stable (06-Dec-22)	1)CARE AA; Stable (17-Jan-22) 2)CARE AA; Stable (07-Dec-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based/Non-fund-based-Short Term	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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