# KIC Metaliks Limited

May 30, 2022

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 105.00 (Enhanced from 42.00) | CARE BBB+; Stable (Triple B Plus; Outlook: Stable ) | Reaffirmed |
| Long Term / Short Term Bank Facilities | 40.00 | CARE BBB+; Stable / CARE A3+ (Triple B Plus ; Outlook: Stable/ A Three Plus ) | Assigned |
| Short Term Bank Facilities | 1.63 (Reduced from 30.00) | CARE A3+ (A Three Plus ) | Reaffirmed and Placed on Notice of withdrawal for 90 days |
| **Total Bank Facilities** | **146.63 (Rs. One Hundred Forty-Six Crore and Sixty-Three Lakhs Only)** | | |

Details of instruments/facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the Bank Facilities of KIC Metaliks Limited (KML) continue to derive strength from its experienced promoters, improvement in financial performance during last few quarters with commissioning of ongoing cost reduction and efficiency improvement project, albeit with delay, satisfactory capacity utilization and moderate capital structure. Any further increase in debt levels will remain key rating monitorable.

The ratings, however, remain constrained on account of exposure to commodity price fluctuation risk, and cyclicality in the steel industry with intense competition from the unorganized sector and presence in single product segment. The ratings further take into account debt level which is higher than the previously envisaged level. However, the working capital borrowing is expected to reduce going forward and shall remain a key rating monitorable.

The rating for short term facilities has been placed on notice of withdrawal as the outstanding amount of Bank Guarantee is backed by 100% cash margin and the same shall be withdrawn after 90 days.

**Rating Sensitivities**

**Positive Factors - Factors that could lead to positive rating action/upgrade:**

- The ability of the company to increase its scale of operations and improve its operating margin beyond 14% on sustained basis
- Maintenance of overall gearing below 1x and TD/PBILDT below 1.5x

**Negative Factors- Factors that could lead to negative rating action/downgrade:**

- Moderation in the average sales realization from the current levels, on a sustained basis, thereby deteriorating the financial performance of the company
- Inability to reduce the utilization of working capital limits in near term, given the recent surge in debt level.

**Detailed description of the key rating drivers**

**Key Rating 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.

**Improvement in financial performance during last few quarters**

The total operating income (TOI) of KML registered a y-o-y improvement of ~11% to Rs.555.95 crore in FY21 on account of increase in sale volume coupled with improvement in average sales realizations of manufactured goods. The positive impact of manufacturing unit was partly negated by lower trading operations of coke and coal (by ~66% y-o-y in FY21). PBILDT level and margin witnessed q-o-q improvement over the last few quarters with commissioning of cost reduction project and better realisation of pig iron. KML reported a PAT of Rs.10.47 crore in FY21 (Rs.8.25 crore in FY20).

In 9MFY22, the TOI of the company increased by 28% to Rs.428.72 crore as compared to Rs.334.98 crore in 9MFY21 on account of improved demand scenario and increased price realizations. PBILDT level and margin witnessed improvement in 9MFY22 vis-a-vis 9MFY21. The company earned non-operating income of Rs.16.54 crore, majority of which includes interest income against advances given to the suppliers for the purchase of raw materials. KML earned PAT of Rs.36.74 crore in 9MFY22 as against net loss of Rs.1.91 crore in 9MFY21.

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

**Satisfactory capacity utilization**
The capacity utilization (CU) of the pig iron plant stood stable and satisfactory at 89% in FY21 vis-à-vis 92% in FY20. Further, during H1FY22, the CU moderated to around 83% owing to intermittent lockdown due to second wave of COVID-19 pandemic, which has largely created supply chain bottlenecks.

**Moderate capital structure**
The overall gearing ratio of the company stood at 1.46x as on March 31, 2021 (1.64x as on March 31, 2020). Total Debt/GCA also stood stable at 7.69x as on March 31, 2021 (9.13x as on March 31, 2020). The company has also carried out refurbishments and debottlenecking of its furnace at a cost of Rs.41.00 crore funded through fresh term loan of Rs.30.00 crore and balance Rs.11.00 crore through internal accruals in Q4FY22. The Company has redeemed the preference shares in FY22. However, debt level remained higher than envisaged as on March 31, 2022 due to term loan for refurbishment project and enhanced working capital. The working capital borrowing is expected to reduce going forward and shall remain a key rating monitorable.
**Key Rating Weaknesses**
**Exposure to commodity price fluctuation risk**
The raw material (mainly iron ore lumps, coal/coke) is the major cost driver (constituting about ~91% of total cost of sales during FY21) 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 is marked by gross cash accruals of Rs.20.59 crore vis-à-vis debt repayment obligations of Rs.6.68 crore and cash and liquid investments of Rs.12.09 crore as on March 31, 2021. The average utilization of its bank facilities stood at ~80% (as per banker interaction and management discussion) in last 12 months ended April 30, 2022 supported by above unity current ratio. The working capital cycle of the company was comfortable and stood at 27 days in FY21 (10 days in FY20). The utilization level is expected to ease with resumption of full-fledged operations and build-up of creditors. Further, the company has redeemed its preference shares in Q3FY22.

**Analytical approach:** Standalone

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

**About the Company**
KIC Metaliks Ltd. (KML) was incorporated in 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 (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | 9MFY22 (UA) |
|---|---|---|---|
| Total operating income | 501.44 | 555.95 | 428.72 |
| PBILDT | 32.36 | 32.71 | 63.83 |
| PAT | 8.25 | 10.47 | 36.74 |
| Overall gearing (times) | 1.64 | 1.46 | NA |
| Interest coverage (times) | 3.50 | 3.17 | 4.10 |
| Interest coverage (times) | 3.50 | 3.17 | 4.10 |

A: Audited, UA: Unaudited; NA: Not 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 for this company**: Annexure 4

**Annexure-1: Details of Instruments / Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 75.00 | CARE BBB+; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 1.63 | CARE A3+ |
| Fund-based - LT-Term Loan | | - | - | March 2027 | 30.00 | 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 of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2022-2023 | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Cash Credit | LT | 75.00 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (01-Dec-21) | 1)CARE BBB; Negative (04-Sep-20)<br>2)CARE BBB; Negative (11-Aug-20) | 1)CARE BBB; Stable (04-Oct-19) |
| 2 | Non-fund-based - ST-BG/LC | ST | 1.63 | CARE A3+ | - | 1)CARE A3+ (01-Dec-21) | 1)CARE A3+ (04-Sep-20)<br>2)CARE A3+ (11-Aug-20) | 1)CARE A3+ (04-Oct-19) |
| 3 | Term Loan-Long Term | LT | - | - | - | 1)Withdrawn (01-Dec-21) | 1)CARE BBB; Negative (04-Sep-20)<br>2)CARE BBB; Negative (11-Aug-20) | 1)CARE BBB; Stable (04-Oct-19) |
| 4 | Fund-based - LT-Term Loan | LT | 30.00 | CARE BBB+; Stable | | | | |
| 5 | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | LT/ST* | 40.00 | CARE BBB+; Stable / CARE A3+ | | | | |

* Long Term / Short Term

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

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No | Name of 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 |
| 4 | Non-fund-based - ST-BG/LC | Simple |

**Annexure 5: Bank Lender Details for this Company**
To view the lender wise details of bank facilities please **click here**

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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 CARE Ratings Limited:**
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.



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