KIC Metaliks Limited
January 31, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	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 FY22 (refers to the period from April 01 to March 31) and H1FY23 with implementation of cost reduction and efficiency improvement project, presence of backward integration and process improvement measures and satisfactory capital structure.
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.
Furthermore, the ratings also factor in major repair and refurbishment of mini blast furnace undertaken by the Company for which the plant was shut down from February 02, 2022 till April 17, 2022 leading to moderation in capacity utilisation in H2FY22 and H1FY23.

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.

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.

Analytical approach: Standalone

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.

Satisfactory financial performance despite declining sales volumes in FY22 amid increasing profitability margin
The total operating income witnessed a y-o-y de-growth of 6.50% in FY22 to Rs.515.06 crore as compared with Rs.551.52 crore in FY21, due to substantial decline in capacity utilisation which was largely offset by increase in sales realization (by 31%) and higher trading sales.
The PBILDT margin increased from 5.13% in FY21 to 12.68% in FY22 on the back of increase in gross margin due to robust realisation of pig iron vis-à-vis stable/lower increase in raw material prices and other cost saving measures which improved efficiency of the plant. The interest cost increased from Rs.10.31 crore in FY21 to Rs.18.96 crore in FY22 on account of increase in interest on preference shares and term loan. The interest cost is expected to reduce in FY23 with the repayment of entire preference shares in FY22 and scheduled repayment of term loan in FY23. KIC earned non-operating income of Rs.20.39 crore in FY22 consisting of interest income of Rs.19.96 crore. The company earned a GCA of Rs.57.93 crore in FY22 as compared with Rs.20.59 crore in FY21.
In H1FY23, the revenue from operations increased to Rs.328 crore as compared with Rs.295 crore in H1FY22 due to further increase in sales realisation. However, the PBILDT margin moderated to 8.85% in H1FY23 as compared with 15.31% in H1FY22 due to lower production in H1FY23 leading to lower absorption of fixed costs. Furthermore, iron ore prices also witnessed significant increase in H1FY23, resulting in lowering of the supernormal profit enjoyed in H1FY22.

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

Satisfactory capital structure and debt protection metrics
The overall gearing ratio of the company improved from 1.46x as on March 31, 2021, to 0.98x as on March 31, 2022, on account of substantial addition of profits to net worth despite debt levels in FY22 remaining similar to the one in FY21. The gearing further reduced to 0.84x as on September 30, 2022. The TD/GCA has improved from 7.69x as on March 31, 2021, to 2.69x as on March 31, 2022, due to significant increase in GCA. The capital structure is expected to remain satisfactory going forward, in the absence of any major capex plan.
The debt protection metrics marked by interest coverage ratio improved from 2.74x as on March 31, 2021, to 3.44x as on March 31, 2022, on account of significant increase in PBILDT level despite increase in the 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.

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 87% of total cost of sales during FY22) 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.

Decline in capacity utilisation in FY22 albeit improvement in H1FY23
The capacity utilization of the pig iron plant declined from 89% in FY21 to 50% in FY22 due to deterioration in mini blast furnace productivity leading to loss of heat and higher coke consumption. The mini blast furnace at the Durgapur plant was shut down w.e.f. February 02, 2022, till April 17, 2022, for repairs and renovation after which it was successfully restarted. The CU has improved slightly to 58% in H1FY23. The CU is expected to improve further in H2FY23 with the completion of refurbishment activities and steady demand.

Liquidity: Adequate
Liquidity is marked by gross cash accruals of Rs.57.93 crore vis-à-vis debt repayment obligations of Rs.18.78 crore in FY22. In addition to the above-mentioned debt repayment obligation, the company has fully redeemed preference shares in FY22 amounting to Rs.45.10 crore (Rs.36.87 crore of preference shares and Rs.8.22 crore of interest) and prepaid term loan of Rs.5.04 crore. The company has also reduced advance from customers by Rs.49.32 crore in FY22. The company has also completed a capex (refurbishment of plant) of Rs.40 crore through a mix of term loan of Rs.30 crore and internal accruals of Rs.11 crore in FY22. The average utilization of its bank facilities stood at around 89% during last 12 months ended November 30, 2022, supported by above unity current ratio.

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

About the company

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 the 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. 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, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	551.52	515.06	328.39
PBILDT	28.28	65.30	29.05
PAT	10.47	38.65	9.19
Overall gearing (times)	1.46	0.98	0.84
Interest coverage (times)	2.74	3.44	5.18

A: Audited; UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated facilities: Detailed explanation of the covenants of the rated facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of 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	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 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	75.00	CARE BBB+; Stable	1)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)	1)CARE BBB; Stable (04-Oct-19)

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)	1)CARE A3+ (04-Oct-19)
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)	1)CARE BBB; Stable (04-Oct-19)
4	Fund-based - LT-Term Loan	LT	30.00	CARE BBB+; Stable	1)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+ (30-May-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Richa Bagaria
Phone: + 91-033- 4018 1600
E-mail: richa.jain@careedge.in

Relationship contact
Name: Lalit Sikaria
Phone: + 91-033- 4018 1600
E-mail: lalit.sikaria@careedge.in

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