KIC Metaliks Limited

March 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	60.00	CARE BBB; Positive (Triple B; Outlook: Positive)	Reaffirmed with outlook revised from Stable
Short Term Bank Facilities	50.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**110.00 (Rs. One Hundred and ten crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KIC Metaliks Limited continue to derive strength from the long business experience of the promoters, improvement in the financial performance of the company in FY18 (refers to period from April 1 to March 31) & 9MFY19 marked by improvement in the profit level and margins and satisfactory debt coverage indicators with effective working capital management.

The ratings, however, continues to be constrained by volatile raw material prices and project implementation risk amidst cyclical nature of the iron & steel industry.

Going forward, the ability of the company to improve its profitability with effective management of its working capital requirement, timely completion of the on-going project within the envisaged cost estimates and further improvement in the capital structure would remain the key rating sensitivities.

Outlook: Positive

The outlook has been revised from 'Stable' to Positive' on expectation of increase in the scale of operation and profitability by virtue of setting up of the cost reduction project (that includes setting up of Pulverized Coal Injection (PCI) system, Sinter Plant –II, Waste Heat Recovery System, installation of Oxygen & Nitrogen plant etc.) The outlook shall be revised to 'Stable' in case the company is not able to derive envisaged benefits therefrom.

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 the capacity utilization during FY18 & 9MFY19: The capacity utilsation of the pig iron plant has improved substantially in the last two years with 100% capacity utilization levels in 9MFY19 as against ~95.54% in FY18 and 70.43% in FY17. This was mainly driven by higher demand for pig iron backed by improved domestic steel industry scenario.

Improvement in the financial performance during FY18 & 9MFY19: The total operating income of KML improved significantly in FY18 with a y-o-y growth of ~94% mainly on account of surge in the overall sales of pig iron followed by substantial increase (3X) in the trading sales of coke & coal. PBILDT margins remained satisfactory, though deteriorated marginally from 6% in FY17 to 5.79% in FY18 owing to rise in the proportion of trading sales and increase in the price of coking coal. Nevertheless on absolute levels, PBILDT level improved significantly from Rs.17.52crore in FY17 to Rs.32.83crore in FY18. The increase in PBILDT levels along with overall decline in interest expense led to improvement in interest coverage ratio from 2.21x in FY17 to 5.36x in FY18.

During 9MFY19, the company reported PAT of Rs.26.03 crore on a total operating income of Rs.674.42 crore vis-à-vis PAT of Rs.7.55 crore on a total operating income of Rs.382.54 crore in 9MFY18.

Effective management of working capital: With improved industry scenario, the average inventory days reduced down from 112 days in FY17 to 48 days in FY18. Further the average collection period also improved from 38 days in FY17 to 18 days in FY18. Accordingly cash conversion cycle of the company improved from 149 days in FY17 to 66 days in FY18.The average utilization of cash credit limit stood at ~56% in the past 12 months ended January, 2019.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Key Rating Weaknesses

***Volatility in prices of inputs & finished goods**:* Raw materials consumed constitutes a significant part of the total cost of sales, going as high as around 88% of the total cost of sales in FY18. The prices of major raw materials- iron ore; coal and coke have witnessed significant volatility in the past. This therefore makes KML's profitability margins susceptible to input price fluctuation. Even though the prices of finished goods move in tandem with raw material prices, there is a time lag which exposes the company to volatility risk.

Project Risk, large size of the project: The company has undertaken expansion project for increasing its pig iron capacity from 1,65,000 MTPA to 2,35,000 MTPA for a total project cost of Rs.67crores, financed by term debt (sanctioned) of Rs.40 crore and balance out of promoters contribution/ internal accruals. The said project is expected to be completed by March 31, 2019 (Expected COD on May 15, 2019). Given the large size of the project as against the current net-worth of the company (Rs.70.26 crore as on March 31, 2018), there remains a risk attached to the timely completion of the project and within the envisaged cost estimates. However the project is in full swing and till January, 2019 the company has already expended around Rs.54.79 crore on the project.

Cyclicality of steel industry: The steel industry is the end user of KML's products. Hence, the business is highly dependent on the fortunes of the steel industry. The global overcapacity led to a fall in steel prices during 2014-15 and 2015-16, while cheap import and lack of demand drivers within the country kept the domestic steel prices low. However, focus of the government on infrastructure development and efforts taken to restart the stalled projects auger well for the steel industry. The increase in proposed outlay for infrastructure as well as projects like 'Housing for All' are expected to generate demand for steel industry and will also result in increased demand for steel products manufactured by the group.

Liquidity Analysis: The promoters have extended continuous support to the company by infusion of unsecured loan to fund its ongoing capex plans and support its increasing scale of operations. The average utilization of fund-based working capital limit during the 12 month ending January 2019 was around 56%. Besides this, KIC had a cash & bank balance of Rs.7.28 crore as on March 31, 2018 (including fixed deposits of Rs.7.25 crore).

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Rating methodology- Steel Sector
Financial ratios – Non-Financial Sector

About the Company

KIC Metaliks Ltd. (KML) was incorporated in August 26, 1986 as Prudential Marketing Pvt. Ltd. The name of the company was later changed to its existing name in Sep. 2003. Currently, KML is engaged in manufacturing of pig iron with an installed capacity of 1,65,000 MTPA and trading of coking coal & Low Ash Metallurgical Coke (LAMC). The company operates a 3,36,600 MTPA Sinter Plant and a 4.7 MW waste heat based power plant for captive consumption.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	292.04	567.00
PBILDT	17.52	32.83
PAT	2.59	11.03
Overall gearing (times)	2.71	2.07
Interest coverage (times)	2.18	5.27

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE BBB; Positive
Non-fund-based - ST-BG/LC	-	-	-	50.00	CARE A3+
Term Loan-Long Term	-	-	September, 2025	40.00	CARE BBB; Positive

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB; Positive	1)CARE BBB; Stable (07-Dec-18) 2)CARE BBB; Stable (06-Sep-18)	1)CARE BBB-; Stable (18-Jul-17)	1)CARE BB+; Stable (20-Jan-17)	1)CARE BB+ (11-Dec-15)
2.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A3+	1)CARE A3+ (07-Dec-18) 2)CARE A3+ (06-Sep-18)	1)CARE A3 (18-Jul-17)	1)CARE A4 (20-Jan-17)	1)CARE A4 (11-Dec-15)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (18-Jul-17)	1)CARE BB+; Stable (20-Jan-17)	1)CARE BB+ (11-Dec-15)
4.	Term Loan-Long Term	LT	40.00	CARE BBB; Positive	1)CARE BBB; Stable (07-Dec-18) 2)CARE BBB; Stable (06-Sep-18)	-	-	-

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