KIC Metaliks Limited (Revised)
September 4, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	43.00 (Reduced from 45.00)	**CARE BBB; Negative (Triple B; Outlook: Negative)**	**Reaffirmed**
Short Term Bank Facilities	50.00	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total Bank Facilities	**93.00 (Rs. Ninety-Three crore only)**		

Details of instruments/facilities in Annexure-1; for classification of instruments/facilities please refer to Annexure-3

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KIC Metaliks Limited (KML) continue to derive strength from the long business experience of the promoters, satisfactory capacity utilization and capital structure.

The ratings, however, remains constrained by residual risks attached to further delay in commissioning of the cost reduction project, volatility in the raw material prices, forex fluctuation risk, moderation in the financial performance of the company in FY20 (refers to period from April 1 to March 31) & Q1FY21 and intense competition amidst cyclical nature of the iron & steel industry.

Outlook: Negative

The outlook on the long-term rating continues to be negative on account of deterioration in the financial performance of the company in Q4FY20 and Q1FY21 ensuing cash losses, coupled with continued delay in commissioning of the cost reduction project (that includes setting up of Pulverized Coal Injection (PCI) system, Sinter Plant –II, installation of Oxygen & Nitrogen plant etc.).

The outlook shall be revised to 'Stable' if the company is able to successfully commission the cost reduction project by the end of Q2FY21 and improve its profitability in the ensuing quarters, with overall improvement in the liquidity position.

Rating Sensitivities

Positive factor

- The ability of the company to increase its scale of operations and improve its operating margins (i.e. PBILDT) beyond 10% on sustained basis.
- Efficient management of the working capital limits within the range of 65% to 75% utilization levels.

Negative factor

- Any further moderation in the average sales realization from the current levels, on a sustained basis, thereby deteriorating the financial performance of the company in the ensuing quarters
- Any further delay in commissioning of the cost reduction project beyond Q2FY21
- Any un-envisaged incremental debt funded capital expenditure deteriorating its capital structure and debt coverage indicators from the current levels.

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.

Satisfactory capacity utilization during FY20, albeit deterioration in Q1FY21

The capacity utilization (CU) of the pig iron plant remained satisfactory though moderated in FY20 to 92% from 114% in FY19 mainly on account of lower demand from the user industry. Further, during Q1FY21, the CU

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

declined to around 69% owing to intermittent complete/partial lockdown due to COVID-19 pandemic, which has largely created supply chain bottlenecks.

Satisfactory capital structure
The company has a satisfactory capital structure with Net worth of Rs.97.82 crore and Total debt of Rs.159.95 crore as on March 31, 2020. The overall gearing ratio of the company improved from 1.71x as on Mar 31, 2019 to 1.64x as on March 31, 2020 attributable to accretion of profit to net-worth. However, Total Debt/GCA moderated to 9.13x as on March 31, 2020 from 3.55x as on Mar 31, 2019 mainly on account of decrease in GCA.

Key Rating Weaknesses

Moderation in the financial performance during FY20 & in Q1FY21
The total operating income of KML registered a y-o-y deterioration of ~41% to Rs.501.44 crore in FY20 from Rs.848.84 crore in FY19 incidental to lower sale volume coupled with moderation in the average sales realizations of manufactured goods. Further Trading sales also witnessed a y-o-y drop of ~57% in FY20. Accordingly, PBILDT levels declined to Rs.32.36 crore (PBILDT margin at 6.45%) in FY20 from Rs.56.52 crore (PBILDT margin at 6.66%) further aggrieved by inventory losses in Q4FY20 (carrying of high cost inventory) due to downward correction in the raw materials prices. Decline in PBILDT coupled with increase in finance cost led to deterioration in PAT levels to Rs.8.25 crore in FY20 from Rs.31.74 crore in FY19. Consequently, GCA deteriorated, however, remained satisfactory, at Rs.17.52 crore in FY20 (Rs.43.09 crore in FY19) vis-à-vis scheduled debt repayment obligation in FY20.
Further, during Q1FY21, KML reported loss of Rs.4.07 on a total operating income of Rs.60.55 crore mainly on account of lower trading sales and moderation in the average sales realization.

Residual Risks attached to further delay in commissioning of the Project
The company had completed setting up of the cost reduction project (that includes setting up of Pulverized Coal Injection (PCI) system, Sinter Plant –II, installation of Oxygen & Nitrogen plant etc.) in September 2019 as against envisaged completion in March 2019. The company has expended around Rs.79 crore as against envisaged cost of around Rs.67 crore. The project, once in place will enhance the pig iron production capacity to 2,35,000 MTPA (current capacity 1,65,000 MTPA) and Sinter Plant to ~3,60,000 MTPA (current capacity 3,36,600 MTPA) followed by optimization of operational cost and thereby improving the operational efficiency.
The project, however till date, could not be commissioned (earlier scheduled in October 2019) on mechanical grounds followed by lack of technical support from Chinese counterpart since Dec-2019 following travel restrictions imposed by countries to contain the outbreak of COVID-19 pandemic. Nevertheless, the company has recently reached out to some Indian experts and the management is of the view that the project now would possibly be commissioned by the end of September-2020.
Commissioning the project within the revised timelines and deriving the envisaged benefits thereon shall however remain a key rating sensitivity.

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 90% of the total cost of sales in FY20 (P.Y: ~92%). 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.

Forex fluctuation risk
The company's profitability is exposed to forex fluctuation risk as imported raw-material also forms a part of the total raw materials of the company. KML usually does not hedge its foreign exchange exposure and hence is susceptible to the fluctuations in foreign currencies vis-à-vis Indian Rupee. The company has reported forex loss of Rs.3.06 crore in FY20 as against forex loss of Rs.1.39 crore in FY19.

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 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.

Impact of COVID19
The Company's manufacturing operations were impacted for a certain period as a consequence of complete lockdown imposed by Central and State Government authorities in India considering public health and safety due to COVID -19 pandemic thereby restricting normal business activities. In-spite of partial withdrawal of lockdown, the on-going restrictions by the appropriate Government authorities to contain the pandemic continue to impact normal production and cause supply chain disruption, etc. As per the current assessment, the company does not foresee incremental risk on carrying amounts of inventories and recoverability of trade receivables and other assets given the measures being pursued to safeguard/mitigate related risks. However, the eventual outcome due to on-going said COVID19 pandemic may be different from those estimated as on the date.

Liquidity position: Adequate
The liquidity position of KML is adequate with GCA of Rs.17.52 crore as against scheduled debt repayment obligations of Rs.2.17 crore in FY20. Further the company has cash and cash equivalent of around Rs.9.0 crore (including fixed deposit of Rs.1.25crore) as on June 30, 2020. Average utilization of its bank facilities stood at around 95% during the last twelve months ending July 31, 2020.
The company has opted for moratorium/deferment of debt servicing (including interest) under RBI's COVID19 Regulatory Package. Also, the company has availed the COVID19 loan. Going forward, the company has debt repayment obligations of Rs.7.75 crore in FY21 starting from Q3FY21 of Rs.1.0crore. Based on the expected improvement in the operational parameters following COD of the on-going capex programme, it is likely that the company will generate adequate cash accruals to service its debt repayment obligations.

Industry Outlook: Iron & Steel
India's steel production which had fallen to record low levels in April 2020 due to Covid- 19 induced nation-wide lockdown has shown a V-shaped recovery since then. Steel production continues to improve sequentially for the third straight month ended July 2020. Production of crude steel improved by 9.5% to 7.6 million tonnes (mt) in July 2020 compared to June 2020. Production of finished steel also improved 11.4% to 6.8 mt in July 2020 as compared to June 2020. Export of finished steel has seen a huge jump during the last three months due to significant increase in exports to China, Spain and Italy. International steel prices bottomed in April 2020 but have since recovered. Prices have risen month-on-month since April driven by increased consumption by China. World export steel prices of HRB have risen 11% since April 2020 on the back of 16% rise in steel prices in China.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch 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
Complexity Level of Rated Instruments

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 165,000 MTPA and trading of coking coal & Low Ash Metallurgical Coke (LAMC). The company operates a 336,600 MTPA Sinter Plant and a 4.7 MW waste heat based power plant for captive consumption.

Brief Financials of KML(Rs. in crore)	FY19 (Audited)	FY20 (Audited)
Total Operating Income	848.84	501.44
PBILDT	56.52	32.36
PAT	31.74	8.25
Overall Gearing	1.71	1.64
Interest Coverage	7.90	3.50

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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; Negative
Non-fund-based - ST-BG/LC	-	-	-	50.00	CARE A3+
Term Loan-Long Term	-	-	Dec-2021	23.00	CARE BBB; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB; Negative	1)CARE BBB; Negative (11-Aug-20)	1)CARE BBB; Stable (04-Oct-19)	1)CARE BBB; Positive (19-Mar-19) 2)CARE BBB; Stable (07-Dec-18) 3)CARE BBB; Stable (06-Sep-18)	1)CARE BBB-; Stable (18-Jul-17)
2.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A3+	1)CARE A3+ (11-Aug-20)	1)CARE A3+ (04-Oct-19)	1)CARE A3+ (19-Mar-19) 2)CARE A3+ (07-Dec-18) 3)CARE A3+ (06-Sep-18)	1)CARE A3 (18-Jul-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (18-Jul-17)
4.	Term Loan-Long Term	LT	23.00	CARE BBB; Negative	1)CARE BBB; Negative (11-Aug-20)	1)CARE BBB; Stable (04-Oct-19)	1)CARE BBB; Positive (19-Mar-19) 2)CARE BBB; Stable (07-Dec-18) 3)CARE BBB;	-

							Stable (06-Sep-18)	

Annexure 3: Complexity level of various instruments rated for this company

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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