KIC Metaliks Limited

October 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	45.00	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed with outlook revised from Positive**
Short Term Bank Facilities	50.00	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total Bank Facilities	**95.00 (Rs. Ninety-Five crore only)**		

** Details of instrument/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 the long business experience of the promoters, improvement in the capacity utilization and financial performance of the company in FY19 (refers to period from April 1 to March 31) and satisfactory debt coverage indicators.

The ratings, however, continues to be constrained by volatility in raw material prices, forex fluctuation risk and intense competition amidst cyclical nature of the iron & steel industry.

Going forward, the ability of the company to improve its profitability by virtue of the cost reduction project undertaken by the company, followed by effective management of its working capital requirement and further improvement in the capital structure would remain the key rating sensitivities.

Outlook: Stable

The outlook has been revised from 'Positive' to 'Stable' on account of time and cost overrun in 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.) coupled with deterioration in the financial performance of the company in Q1FY20.

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 FY19, albeit deterioration in Q1FY20

The capacity utilsation (CU) of the pig iron plant has improved over the last three years with above 100% capacity utilization levels in FY19 as against ~95.54% in FY18 and 70.43% in FY17. However, during Q1FY20, the CU declined to 66.07%.

Improvement in the financial performance during FY19 albeit moderation in Q1FY20

The total operating income of KML registered a y-o-y growth of ~49% to Rs.848.84 crore in FY19 on account of increased capacity utilization and improved sales realization with growth in volumes. However, the company also increased its exposure (~59% y-o-y) in low margin trading sales of coal and coke in FY19 which in turn moderated the overall operating margins. Nevertheless, the PBILDT Margin demonstrated improvement from 5.79% in FY18 to 6.66% in FY19. The company reported PAT of Rs.31.74 crore in FY19 vis-à-vis Rs.11.03 crore in FY18. Gross Cash Accruals (GCA) improved and remained comfortable at Rs.43.09 crore in FY19 (Rs.23.65 crore in FY18) vis-à-vis debt repayment obligation in FY19.

However, during Q1FY20, the total operating income declined to Rs.117.30 crore mainly on account of moderation in average sales realization coupled with decline in the sales volume which was attributable to muted demand from the industry. Accordingly PBILDT was impacted and the company reported lower PAT of Rs.4.82 crore in Q1FY20 as against PAT of Rs.9.40 crore in Q1FY19. The volumes and the sales realization witnessed further deterioration in July and August 2019.

Satisfactory capital structure with debt protection metrics

The company has a satisfactory capital structure with Net worth of Rs.89.65 crore and Total debt of Rs.153.06 crore as on March 31, 2019. The overall gearing ratio and Total Debt/GCA of the company improved from ~2.03x and ~4.97x as on Mar 31, 2018 to ~1.71x and ~3.55x as on Mar 31, 2019.

Key Rating Weaknesses

Moderation in the Project risk, however there is time and cost overrun

The company has 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

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

completion in March 2019. The company is carrying out trial runs with expected COD by mid of October, 2019. 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 ~6,80,000 MTPA (current capacity 3,36,600 MTPA) followed by optimization of operational cost and thereby improving the operational efficiency. The company has expended around Rs.79 crore as against envisaged cost of around Rs.67 crore. 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 92% of the total cost of sales in FY19. 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.1.39 crore in FY19 as against forex gain of 1.09 crore in FY18.

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.

Liquidity position: Adequate
The liquidity position of KML is adequate characterized by average fund based utilisation of around ~77% during the 12 months ended August 2019. The operations of the company are working capital intensive as the company needs to maintain adequate inventory for smooth running of its productions.

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

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 of KML(Rs. in crore)	FY18 (A)	FY19 (A)
Total Operating Income	567.00	848.84
PBILDT	32.83	56.52
PAT	11.03	31.74
Overall Gearing	2.03	1.71
Interest Coverage	5.36	7.90

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

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; Stable
Non-fund-based - ST-BG/LC	-	-	-	50.00	CARE A3+
Term Loan-Long Term	-	-	June 2021	25.00	CARE BBB; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB; Stable	-	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)	1)CARE BB+; Stable (20-Jan-17)
2.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A3+	-	1)CARE A3+ (19-Mar-19) 2)CARE A3+ (07-Dec-18) 3)CARE A3+ (06-Sep-18)	1)CARE A3 (18-Jul-17)	1)CARE A4 (20-Jan-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (18-Jul-17)	1)CARE BB+; Stable (20-Jan-17)
4.	Term Loan-Long Term	LT	25.00	CARE BBB; Stable	-	1)CARE BBB; Positive (19-Mar-19) 2)CARE BBB; Stable (07-Dec-18) 3)CARE BBB; Stable (06-Sep-18)	-	-

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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