Kalyani Steels Limited

August 18, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long Term Facilities	235.60	**CARE AA; Stable (Double A Outlook Stable)**	Reaffirmed
Short Term Facilities	500.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**735.60 (Rupees Seven Hundred Thirty Five Crore and Sixty Lakh Only)**		
Commercial Paper	75.00 (**Rupees Seventy Five Crore Only**)	**CARE A1+ (A One Plus)**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities & debt instrument of Kalyani Steels Limited (KSL) continues to derive strength from the strong parentage of the Kalyani Group promoted by Mr. B. N. Kalyani coupled with the long and established track record of KSL of over four decades in the manufacturing of forging and engineering quality carbon and alloy steel. The ratings also takes the cognizance of comfortable financial risk profile of KSL marked by healthy liquidity in the form of investments in mutual funds, growth in the total operating income (TOI) during FY17 (refers to the period from April 01 to March 31), coupled with healthy operating margin. The ratings, continues to factor in low leveraged capital structure as on March 31, 2017 and comfortable debt coverage indicators of the company during FY17.

The rating strengths however continues to be constrained on account of volatility in the prices of iron ore and coke due to the regulatory risk pertaining to the mining activities, foreign exchange fluctuation risk on un-hedged exposure and working capital intensive nature of operations which are partially offset by availability of credit line in terms of unutilized working capital limits. The ratings also takes the note of the exposure to group companies in the form of investments and guarantee extended on behalf of group companies for the purchase of shares.

Any large incremental debt funded capital expenditure by KSL deteriorating its capital structure and debt coverage indicators from current levels shall remain key rating sensitivity. In addition, any further exposure to group companies shall remain key rating monitorable. Ability of the company to increase its scale of operations, as envisaged while sustaining the improvement in its profitability is also crucial from credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group

KSL being a part of Kalyani Group is spearheaded by Mr. B.N Kalyani in the strength of Chairman. He also is the Chairman and Managing Director (CMD) of Bharat Forge Limited and Executive Chairman of Kalyani Carpenter Speciality Steels Private Limited. The Kalyani Group, established in mid 1960s has wide experience in high technology, engineering & manufacturing capability across critical sectors including as Engineering Steel, Automotive, Industrial, Renewable Energy, Urban Infrastructure and Specialty Chemicals.

Comfortable financial risk profile of the company marked by healthy growth in total operating income (TOI), improvement in the profitability and healthy cash accruals

The TOI of the company registered a healthy growth of 20.25% to Rs.1436.60 crore during FY17 to Rs.1194.70 crore during FY16 backed by increase in the sales of pig iron to Rs.50.58 crore during FY17 from Rs.24.81 crore in FY16. Also, the increase in the traded goods (coke & rolled products) more than doubled to Rs.108.50 crore during FY17 resulting from Rs.25.59 crore during FY16 resulting into growth in the TOI. Despite lower and stagnant average sales realizations of the manufacturing sales and increasing raw material prices the PBILDT margin of the company remained stable and improved marginally by 96 bps to 20.82% during FY17 as against 19.87% during FY16. The same was on account of the reduction in the over-head expenses by KSL. In line with the improvement of the operating margin, the PAT margin of the company

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

improved to 10.85% during FY17 as against 9.51% during FY16. Correspondingly, the cash accruals of the company increased to Rs.199.76 crore during FY17 (FY16: Rs.175.01 crore).

Healthy debt coverage indicators coupled with low overall gearing leading to comfortable capital structure of KSL as on March 31, 2017

Over the years healthy accretion of profits to its networth base has resulted into augmentation of the networth to Rs.741.51 crore as on March 31, 2017. The overall gearing of KSL improved and remained at 0.48x as on March 31, 2017 as against overall gearing of 0.61x as on March 31, 2016. The debt to equity ratio of the company improved to 0.15x as on March 31, 2017 as against 0.30x as on March 31, 2016.

Improvement in the profitability and healthy gross cash accruals resulted into healthy debt coverage indicators of the company during FY17. The interest coverage of the company improved to 31.06x during FY17 as against 19.73x during FY16. The total debt to GCA also remained comfortable at 1.77x as at the end of FY17.

Diversified raw material procurement base

The key raw materials used by KSL include iron ore *(27% of total raw material costs in FY17)* and coke/coke fines *(53% of total raw material costs in FY17)*. KSL has well diversified raw material procurement strategy where in raw materials are procured both from the domestic (41% in FY17 and 66% in FY16 of total raw material cost) and overseas (59% in FY17 and 34% in FY16 of total raw material cost) market.

Key Rating Weaknesses

Volatility in iron ore prices & coal

Raw material is the single largest cost component for KSL, constituting about 36% of the total operating income in FY17. The key raw materials used by the company are iron ore/iron ore fines; coke/coke fines, fluxes like limestone and dolomite, ferro alloys and scrap. The iron ore and coal price fluctuate due to dependence on macro factors such as global supply and demand, availability and are characterized by limited availability, global production capacity and existence of imports of iron ore. Therefore, any volatility in iron ore and coal has a direct impact on the product procurement costs, translating into inherent volatility in operating margins.

Foreign exchange fluctuation risk

KSL is exposed to foreign currency risks at operating level as the company is a net importer of raw-material and with repayment in USD. As on March 31, 2017, buyers credit, external commercial borrowings, receivables and payables were un-hedged. The un-hedged position exposes KSL to risk associated to losses in case of adverse movement in the foreign exchange.

Working capital intensive nature of operations

KSL operates in working capital intensive industry. The company typically gives a credit period from 45-120 days based on the customer profile. The payments for the iron ore after the e-auction is won is on cash basis and the imports of coal and alloys are backed letter of credit by Letter of Credit (LC) and (180 days of interest free credit) and thereafter based on the requirement are converted to buyers credit.

The operating cycle of the company improved marginally to 62 days during FY17 as compared to 70 days during FY16. Although the inventory days improved from 52 days during FY16 to 40 days during FY17, the inventories in the absolute amount increased marginally from Rs.109.12 crore as on March 31, 2016 to Rs.134.78 crore as on March 31, 2017. Further, the receivables of KSL also increased from Rs.345.86 crore as on March 31, 2016 (20% of the TOI) to Rs.467.06 crore as on March 31, 2017 (33% of the TOI). Increase in the receivables at the year-end led to lower cash flow from operations to the tune of Rs.151.07 crore during FY17 as against Rs.202.04 crore during FY16. Nevertheless, the company had liquidity in the form of investments in the mutual funds to the tune of Rs.65.72 crore and cash and bank balance of Rs.21.86 crore as on March 31, 2017. Further, the fund based working capita limits of was hardly utilized for the twelve months ended June 30, 2017.

Exposure to the group companies in the form of investments as on March 31, 2017

KSL has invested in various group companies in the form of investments in equity shares, investment in preference shares and investment in debentures. The exposure to group companies remained at 29% of the tangible networth as on March 31, 2017 as against 37% of the tangible networth as on March 31, 2016.

Fortunes of the company linked to cyclical automobile industry

The carbon and alloy steel manufactured by KSL, largely has end-users in automobile segment. Indian automobile industry is set to become world's most attractive market with government's increasing focus on GST, emission norms and emission standards.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Rating]
[CARE's Policy on Default Recognition]

[Criteria for Short Term Instruments]
[Factoring Linkages in Rating]
[Financial Ratios-Non Financial Sectors]
[Rating Methodology Manufacturing Companies]
[Rating Methodology-Steel Companies]

About the Company

Kalyani Steels Limited (KSL) was incorporated in 1973 and is a part of the Pune (Maharashtra) based Kalyani Group. The company is spearheaded by Mr. B. N Kalyani, also chairman of the Kalyani Group of companies with its registered office based out of Pune, Maharashtra and manufacturing facility located at Hospet, Karnataka. KSL is a leading manufacturer of forging and engineering quality carbon and alloy steel used in manufacturing components of commercial vehicles, two wheelers, diesel engines, bearings, tractors, turbines and rail.
KSL has a state of the art integrated manufacturing facility along-with a captive power plant of 8.0 Mega-watt (MW) spread across 375 acres located in Hospet, Karnataka. The total installed capacity is 6.7 lakhs metric tonne per annum (MTPA). The manufacturing facilities are shared with Mukand Limited (ML, part of Bajaj Group) with KSL holding 41.38% of the assets and ML holding the remaining assets.

Brief Financials (Rs. crore)	FY16 (Audited)	FY17 (Audited)
Total operating income	1194.70	1436.60
PBILDT	237.33	299.12
PAT	113.58	155.92
Overall gearing (times)	0.61	0.48
Interest coverage (times)	19.73	31.06

Status of non-cooperation with previous CRA: ICRA has suspended the rating assigned to the bank facilities of KSL in June 2016 on account of ICRA's inability to carry out a rating surveillance in the absence of the requisite information from the company.

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.*

Analyst Contact:
Name: Mr. Aniruddha Mate
Tel: 020-40009007
Mobile: 9970613934
Email: aniruddha.mate@careratings.com
:

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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	-	-	-	150.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	300.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	200.00	CARE A1+
Fund-based - LT-External Commercial Borrowings	-	-	June 2019	85.60	CARE AA; Stable
Commercial Paper	-	-	-	75.00	CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	150.00	CARE AA; Stable	-	1)CARE AA (28-Oct-16) 2)CARE AA (13-May-16)	-	1)CARE AA (18-Feb-15)
2.	Non-fund-based - ST-BG/LC	ST	300.00	CARE A1+	-	1)CARE A1+ (28-Oct-16) 2)CARE A1+ (13-May-16)	-	1)CARE A1+ (18-Feb-15)
3.	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (28-Oct-16) 2)CARE A1+ (13-May-16)	-	1)CARE A1+ (18-Feb-15)
4.	Commercial Paper	ST	75.00	CARE A1+	-	1)CARE A1+ (28-Oct-16) 2)CARE A1+ (13-May-16)	-	1)CARE A1+ (18-Feb-15)
5.	Fund-based - LT-External Commercial Borrowings	LT	85.60	CARE AA; Stable	-	1)CARE AA (28-Oct-16) 2)CARE AA (13-May-16)	-	1)CARE AA (18-Feb-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691