KIC Metaliks Ltd

July 18, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)**
Short-term Bank Facilities	32.00	**CARE A3 (A Three)**	**Revised from CARE A4 (A Four)**
Long term Bank Facilities*	-	**-**	**Withdrawn**
Total	**49.00 (Rs. Forty nine crore only)**		

Details of instruments/facilities in Annexure-1

** CARE has withdrawn the ratings assigned to the term loans of KML with immediate effect. The above action has been taken on receipt of 'No Due Certificate' from the lender.*

Detailed Rationale & Key Rating Drivers

The revision in the ratings of KIC Metaliks Limited (KML) is on account of improvement in financial performance in FY17 (refers to period from April 1 to March 31) and improvement in financial risk profile. The ratings derive strength from long business experience of the promoters and effective management of working capital. The ratings, however, continues to be constrained by lack of backward integration, volatile raw material prices and cyclical nature of the iron & steel industry. Going forward, the ability of the company to improve its capacity utilization and profitability and maintain capital structure at the current level along with effective management of working capital and any debt laden capex in the future would remain the key rating sensitivities.

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 old experience in coal sector.

Improvement in financial performance in FY17

Despite decline in total operating income by ~7.5% y-o-y in FY17, PBILDT margin improved from 4.38% in FY16 to 6.00% in FY17 on account of increase in realization of pig iron and also reduction in the proportion of trading sales in FY17. The increase in level of PBILDT along with decline in interest costs led to improvement in interest coverage ratio from 1.82x in FY16 to 2.84x in FY17. KML reported GCA of Rs.12.53 crore vis-à-vis debt repayment obligation of Rs.13.75 crore in FY17. The balance Rs.1.22 crore is repaid out of cash and bank balances.

In 2MFY18, the company achieved PBT of Rs.1.75 crore on net sales of Rs.108.29 crore.

Improvement in financial risk profile

The overall gearing ratio of the company improved from 1.35x as on Mar 31, 2016 to 0.36x as on Mar 31, 2017 in view of full repayment of the term loan and accretion of profits to reserve. This apart, the improvement in gearing ratio was also on the back of subordination of unsecured loans of Rs.36 crore as on Mar 31, 2017. This also resulted in improvement of Total debt/GCA from 14.44x in FY16 to 3.74x in FY17.

Further, the management of KML has also confirmed that they are not undertaking any capex for at least 2-3 years.

Effective management of working capital

In FY17, there is an improvement in average inventory days from 131 days in FY16 to 113 days in FY17. Additionally, out of the total trade receivable of Rs.30.84 crore outstanding as on Mar.31, 2017, the company has realised Rs.29.45 crore till June.03, 2017. Out of Rs.105.23 crore of creditors outstanding as on Mar 31, 2017, Rs.50 crore relates to trading creditors (purchased materials in the month of February and March) and the balance Rs.55.23 crore pertains to the manufacturing activities. Till May 31, 2017, KML had paid Rs.83.53 crore (~80%) of the creditors outstanding as on Mar 31, 2017. Average utilisation of fund based working capital limits during the last 12 months (i.e. June, 2016 to May, 2017) remained moderate at around 80%.

Key Rating Weaknesses

Lack of backward integration vis-à-vis volatility in prices

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

Raw material (including trading materials) consumption is the single largest cost component for KML comprising 87.5% of cost of sales in FY17. The company does not have any backward integration for its basic raw material (iron ore, coke) and does not have long-term arrangements for procurement of the materials. Hence, the profitability of the company is exposed to volatility in the prices of raw materials.

Exposure towards foreign exchange fluctuation risk

KML imports raw materials and trading items aggregating Rs.127.82 crore which is around 53.8% of its total raw material cost in FY17 (41.3% crore in FY16). The company partially hedges its forex position by taking forward cover and hence the forex fluctuation risk is reduced to an extent.

Industry outlook

In FY17, steel industry had been reeling under the impact of slowdown in domestic demand from the end user segments like construction, automobile and white goods sector. However, it is expected to improve from FY18 onwards on the back of government proposed Rs.3.96 lakh crore investments plans for the infra sector, recent approval given by the Union Cabinet for National Steel Policy, Affordable Housing Segment, etc.

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), 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). For manufacturing of the same, the company operates a 3,36,600 MTPA Sinter Plant and a 4.7 MW waste heat based power plant for captive consumption. Mr. Radhey Shyam Jalan, CMD of KML, looks after the day-to-day affairs of company, with support from a team of experienced professionals.

(Rs. Cr)

Brief Financials (Rs. Crore)	*FY16 (A)*	*FY17 (A)*
Total operating income	312.31	288.89
PBILDT	13.67	17.33
PAT	0.75	3.67
Overall gearing (times)	1.35	0.36
Interest coverage(times)	1.82	2.84

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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About CARE Ratings:

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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	-	-	-	17.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	32.00	CARE A3
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

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	17.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (20-Jan-17)	1)CARE BB+ (11-Dec-15)	1)CARE BB+ (11-Nov-14)
2.	Non-fund-based - ST-BG/LC	ST	32.00	CARE A3	-	1)CARE A4 (20-Jan-17)	1)CARE A4 (11-Dec-15)	1)CARE A4 (11-Nov-14)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+; Stable (20-Jan-17)	1)CARE BB+ (11-Dec-15)	1)CARE BB+ (11-Nov-14)

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