

## KIC Metaliks Limited

December 01, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities (Term loan)	-	-	Withdrawn
Long Term Bank Facilities (Cash Credit)	42.00 (Enhanced from 20.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Short Term Bank Facilities	30.00 (Reduced from 50.00)	CARE A3+ (A Three Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>72.00</b> <b>(Rs. Seventy-Two Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the Bank Facilities of KIC Metaliks Limited (KML) considers q-o-q improvement in financial performance over the last few quarters after subdued performance in H1FY21 with commissioning of ongoing cost reduction and efficiency improvement project, albeit with delay. The rating revision also takes into account the debt reduction plan and expected improvement in capital structure. The ratings continue to derive strength from its experienced promoters and satisfactory capacity utilization of units.

The ratings, however, remain constrained on account of exposure to commodity price fluctuation risk, and cyclicity in the steel industry with intense competition from the unorganized sector and presence in single product segment. The rating for term loan has been withdrawn as the same has been entirely paid-off by the company.

### Rating Sensitivities

#### **Positive Factors - Factors that could lead to positive rating action/upgrade:**

- The ability of the company to increase its scale of operations and improve its operating margins (i.e. PBILDT) beyond 14% on sustained basis
- Efficient management of the working capital limits within the range of 65% to 75% utilization levels
- Maintenance of overall gearing below 1x and TD/PBLDT below 1.5x

#### **Negative Factors- Factors that could lead to negative rating action/downgrade:**

- Moderation in the average sales realization from the current levels, on a sustained basis, thereby deteriorating the financial performance of the company
- 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.

##### **Improvement in financial performance during the last few quarters**

The total operating income of KML registered a y-o-y improvement of ~11% to Rs.555.95 crore in FY21 on account of increase in sale volume coupled with improvement in average sales realizations of manufactured goods. The positive impact of manufacturing unit was partly negated by lower trading operations of coke and coal (by ~66% y-o-y in FY21). PBILDT level and margin witnessed q-o-q improvement over the last few quarters with commissioning of cost reduction project and better realisation of pig iron. KML reported a PAT of Rs.10.47 crore in FY21 (Rs.8.25 crore in FY20). The company earned cash accruals of Rs.20.59 crore in FY21 vis-à-vis debt repayment of Rs.6.68 crore during the year. In H1FY22, the financial performance of the company continued to witness improvement with PAT of Rs.21.52 crore on total operating income of Rs.295.14 crore.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Successful commissioning of the project in Q2FY21**

The Company has commissioned a PCI system for the existing Mini Blast Furnace (MBF), an Oxygen plant and a 25m<sup>2</sup> Annular Sinter Plant in Q2FY21 which has been a significant development both for increasing pig iron production capacity from 1,65,000 MTPA to 2,35,000 MTPA (led by increase in efficiency of the production process) as well as for reduction in hot metal cost.

**Satisfactory capacity utilization**

The capacity utilization (CU) of the pig iron plant stood stable and satisfactory at 89% in FY21 vis-à-vis 92% in FY20. Further, during H1FY22, the CU moderated to around 83% owing to intermittent lockdown due to second wave of COVID-19 pandemic, which has largely created supply chain bottlenecks.

**Debt reduction plan to improve capital structure**

The company has a satisfactory capital structure with Net worth of Rs.108.36 crore and total debt of Rs.177.31 crore as on March 31, 2021. The overall gearing ratio of the company improved to 1.46x as on Mar 31, 2021 (1.64x as on March 31, 2020). Total Debt/GCA also stood stable at 7.69x as on Mar 31, 2021 (9.13x as on March 31, 2020). The Company has repaid the term loan in FY22 and proposes to redeem part of the preference shares in Q3FY22. The same is expected to lead to significant improvement in capital structure and debt protection metrics.

**Key Rating Weaknesses****Exposure to commodity price fluctuation risk**

The raw material (mainly iron ore lumps, coal/coke) is the major cost driver (constituting about ~91% of total cost of sales during FY21) for the company. The prices of iron ore; coal and coke has witnessed sharp volatility in the past making KML's profitability margins susceptible to input price fluctuation. Though the prices of finished goods move in tandem to that of the raw materials, there is a time lag which exposes the company to commodity price fluctuation.

**Cyclicality in the steel industry with intense competition from the unorganized sector with presence in single product segment**

The steel industry is the end user of KML's product, i.e. pig iron. 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: Adequate**

Adequate liquidity is marked by gross cash accruals of Rs.20.59 crore vis-à-vis debt repayment obligations of Rs.6.68 crore and cash and liquid investments of Rs.12.09 crore as on March 31, 2021 (Provisional). The average utilization of its bank facilities stood at ~80% (as per banker interaction and management discussion) in last 12 months ended October 31, 2021 supported by above unity current ratio. The working capital cycle of the company was comfortable and stood at 27 days in FY21 (10 days in FY20). Further, the company shall redeem its preference shares in tranches on or before December 15, 2021 out of reduction in working capital requirement, mainly advance to suppliers.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

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**About the Company**

KIC Metaliks Ltd. (KML) was incorporated in August 26, 1986 as Prudential Marketing Private Limited. The name of the company was later changed to its existing name in September 2003. Currently, KML is engaged in manufacturing of pig iron with an installed capacity of 2,35,000 MTPA (enhanced from 1,65,000 MTPA through de-bottlenecking) in Durgapur and trading of coking coal & Low Ash Metallurgical Coke (LAMC). For manufacturing of pig iron, the company operates a 3,60,000 MTPA Sinter Plant at its existing plant location 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/staffs.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	501.44	555.95	295.14
PBILDT	32.36	32.71	45.20
PAT	8.25	10.47	21.52
Overall gearing (times)	1.64	1.46	1.29
Interest coverage (times)	3.50	3.17	7.05

A: Audited; Prov.: Provisional

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	42.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	30.00	CARE A3+
Term Loan-Long Term	-	-	-	-	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	42.00	CARE BBB+; Stable	-	1)CARE BBB; Negative (04-Sep-20) 2)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)
2	Non-fund-based - ST-BG/LC	ST	30.00	CARE A3+	-	1)CARE A3+ (04-Sep-20) 2)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)
3	Term Loan-Long Term	LT	-	-	-	1)CARE BBB; Negative (04-Sep-20) 2)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: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable****Annexure 4: Complexity level of various instruments rated for this company**

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

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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