Rating Rationale

Kalika Steel Alloys Private Limited

09 March 2021

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Kalika Steel Alloys Private Limited (KSAPL or the Company).

Particulars

Facilities Rated[1]	Tenor	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Previous Rating** (Jan-2020)	Present Rating*
Fund Based	Long Term	156.00	**132.41**	BWR BBB+/Stable	**BWR BBB+/Stable Reaffirmed**
Non Fund Based	Short Term	80.00	**50.00**	BWR A2	**BWR A2 Reaffirmed**
Total		236.00	**182.41**	**(INR One Hundred Eighty Two Crores and Forty One lakhs Only)**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.
[1]Details at annexure I
**Advisory as on "22-Jan-2021"

Brickwork Ratings (BWR) has principally relied upon the audited financial results up to FY20, Key provisional financials of 9MFY21, projected financials, publicly available information and information/clarification provided by the company's management.

Rating Action: BWR has reaffirmed the long-term rating at BWR BBB+ with Stable outlook and short-term rating at BWR A2 for the bank loan facilities of Rs. 182.41 Crs of KSAPL.

Rationale:
The ratings take into consideration the improvement in the capital structure and comfortable debt protection metrics aided by consistent debt repayment and profitability. The rating continues to draw comfort from the considerable experience of the promoters in the steel industry and benefits of backward integration with capabilities to manufacture MS billets and Thermo Mechanically Treated (TMT) bars. The rating is however constrained by the expected moderation in the revenue profile of the company in FY21 mainly on account of Covid-19 pandemic which had a bearing on the company's performance in the initial few months of FY21 and moderated revenue profile in FY20 vis-à-vis the consistent revenue growth registered during FY17-FY19. However from Sep'2020 onwards till Jan' 2021, the company has registered growth in the monthly revenue numbers vis-à-vis the corresponding period of FY20.
The ratings are also constrained by the intense competition in the fragmented and commoditized TMT bars market which limits pricing flexibility and risks related to fluctuations in raw material prices and forex. KSAPL remains vulnerable to inherent cyclicality in the industry and absence of a captive power plant which exposes the company's profits to fluctuations due to lesser control over cost structure.

BWR believes the KSAPL business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

Key Rating Drivers:

Credit Strengths:

- **Established track record of the company:** The established position of the company and long term experience of the promoters in the steel industry and established network of suppliers and customers are other key strengths of the company. The operations of the company are managed by professionals with industry and management experience.
- **Credit profile:** KSAPL's financial risk profile is driven by moderate gearing and moderate cushion vis-a-vis debt repayment obligations. As per FY20 audited financials, KSAPL had total debt of Rs. 113.31 crore, resulting in a gearing of 0.49 times. KSAPL has reported net cash accruals of Rs. 25.08 Crs in FY20. Going forward, net cash accruals are expected to be in the range of Rs. 20-25 Crs which provides adequate cushion vis-à-vis the debt repayment obligations. The company has informed that in FY21 (till 31-Jan-2021) they have prepaid ~Rs. 5.83 Crs.
- **Working capital cycle**: The working capital intensity of the company remains moderate on account of the low receivable and inventory days. The receivable days stood at 25 days in FY20 as against 21 days in FY19 and inventory days stood at 25 days in FY20 as against 32 days in FY19.

Credit Weaknesses:

- **Margins susceptible to Volatility in the prices of raw material:** Intense competition in a highly fragmented and commoditized TMT market keeps margins under pressure and leading to volatility in raw material prices apart from forex risks.
- **Lack of vertical integration:** Due to the lack of vertical integration and the absence of any captive sources of raw materials and power, the company is exposed to price and supply risks, which leads to lesser control over the cost structure.
- **Exposure to cyclicality inherent in the steel industry:** The domestic steel industry is cyclical in nature and is likely to impact the cash flows of KSAPL. The company's operations are vulnerable to any adverse change in demand-supply dynamics.

Rating Sensitivities:

Positive: Sustained improvement in its capacity utilization resulting in improved scale of operations and profitability. Specific credit metrics (1) TOL/TNW below 1.0 time on a sustained basis, (2) ISCR above 4.0 times on a sustained basis; and (3) DSCR greater than 2.0 times on a sustained basis.

Negative: Decline in price realization,, material deterioration in profitability, or a significant rise in debt-led capex. A weakening in ISCR to below 2.00 times and/or DSCR to below 1.2 times could also exert negative pressure on the company's rating.

Going forward, the ability of the firm to meet its projected turnover and profitability and managing working capital efficiently will also be a key monitorable.

Liquidity Position: Adequate

As of 31-01-2021, Cash & cash equivalents stood at Rs. 3.36 Crs - cash in hand stood at Rs. 0.35 Crs, bank balance (current accounts) stood at Rs. 0.02 Cr and investment in fixed deposit (free from charges) stood at Rs. 2.99 Crs. Under the Package scheme of incentives, subsidy receivable as on 31-3-2020 stood at Rs. 59.33 Crs which is net of Rs. 15 Crs already received by KSAPL. During FY21, the company has received a subsidy of Rs. 2.55 Crs. Receipt of subsidy will create additional liquidity with the company. Interest service coverage ratio (ISCR) stood at 2.39 times in FY20 vis-à-vis 2.47 times in FY19. The debt protection metrics are expected to remain at moderate levels in FY21.

Analytical Approach:

BWR has factored the standalone business and financial risk profile of the company to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked below.

About the Company:

KSAPL, incorporated in October 2002, is engaged in the production of TMT bars with an installed capacity of 2, 50,000 metric tonnes per annum (MTPA). It is backward integrated with an installed capacity to manufacture 2,50,000 MTPA of billets. The company has its manufacturing facility at Jalna MIDC, Jalna and is closely held by the four directors Mr. Ghansham Goyal, Mr. Arun Agrawal, Mr. Anil Goyal, and Mr. Manoj Jindal.

Company's Financial Performance:

Key Financial Parameters***	FY19 (A)	FY20 (A)
Total Operating Income (Rs. Crs)	948.25	860.06
PAT (Rs. Crs)	19.33	16.43
Total Debt (Rs. Crs)	136.23	113.31
Tangible Networth (Rs. Crs)	190.40	230.48
D/E (times)	0.72	0.49

***As per BWR calculations

As per the key provisional financials, during 9MFY21, the company has achieved income from operations of Rs. 515.08 Crs with Ebitda of Rs. 40.39 Crs vis-à-vis income from operations of Rs. 600.59 Crs with Ebitda of Rs. 33.81 Crs during 9MFY20.

Rating History for the last three years (Including withdrawal and suspended):

SI. No.	Facility	Current Rating (2021)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs. Crs)	Rating	Jan-2020**	2019	Oct-2018
1	Fund Based	Long Term	132.41	BWR BBB+/Stable	BWR BBB+/Stable	-	BWR BBB+/Stable
2	Non Fund Based	Short Term	50.00	BWR A2	BWR A2	-	BWR A2
Total			182.41	(INR One Hundred Eighty Two Crores and Forty One lakhs Only)			

**Advisory as on "22-Jan-2021"
Rating moved to Not Reviewed Advisory in Oct-2019

NA: Not Available

Status of non-cooperation with previous CRA (if applicable): CARE BB+/Stable/A4+ (Issuer Not Co-operating) dated 01-July-2020

Any other information: NIL

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank of India	Term Loan*	**9.62**	-	**9.62**
		Cash Credit (CC)	**45.00**	-	**45.00**
		BG-sublimit of CC	-	**(10.00)**	**(10.00)**
		LC-sublimit of CC	-	**(35.00)**	**(35.00)**
2	Bank of India	Term Loan*	**7.79**	-	**7.79**
		Cash Credit (CC)	**35.00**	-	**35.00**
		LC	-	**35.00**	**35.00**
		BG	-	**10.00**	**10.00**
3	HDFC Bank	Cash Credit (CC)	**35.00**	-	**35.00**
		BG-sublimit of CC	-	**(10.00)**	**(10.00)**
		LC-sublimit of CC	-	**(20.00)**	**(20.00)**
		BG	-	**5.00**	**5.00**
TOTAL			**132.41**	**50.00**	**182.41**

*O/s as of 31-Jan-2021

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