June 06, 2025

Kanishk Steel Industries Limited: Ratings downgraded to [ICRA]BB+/[ICRA]A4+, outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term - Fund-based – Cash credit	30.00	30.00	[ICRA]BB+(Stable), downgraded from [ICRA]BBB-; outlook revised to Stable from Negative
Long term - Fund-based - Term loans	20.50	-	-
Short term – Non-fund-based- Others	41.00	41.00	[ICRA]A4+; downgraded from [ICRA]A3
Long term/Short term - Unallocated	-	20.50	[ICRA]BB+ (Stable)/[ICRA]A4+; downgraded from [ICRA]BBB-/[ICRA]A3 and outlook revised to Stable from Negative
Total	**91.50**	**91.50**	

**Instrument details are provided in Annexure I*

Rationale

The ratings downgrade of Kanishk Steel Industries Limited (KSIL) considers its weaker-than-expected performance in FY2025 owing to a delay in the commissioning of backward-integrated solar power projects and a correction in steel prices. While ICRA had highlighted its concerns over profitability in its November 2024 release, the reported operating profit of Rs. 8 crore in FY2025 remained even weaker than the revised estimates drawn in November 2024. KSIL's plan to set up a 10.2-MW solar plant in Q4 FY2025 has been delayed and it is now expected to be commissioned by the end of Q1 FY2026. The entity has also sold its wind power assets in Q3 FY2025, resulting in higher power expenses and adversely impacting the cost structure in the previous fiscal.

The market conditions also remained challenging in FY2025, moderating the steel prices and accentuating the impact on profitability. The newly commissioned expanded billet/rolling mill capacities are also in a ramp-up stage with a capacity utilisation (CU) of ~75% in FY2025. Consequently, the operating margins remained subdued at 2.3% in FY2025. The leverage and coverage indicators also remained adverse with total debt/OPBDITA of 3.1 times and interest coverage of 2.1 times in FY2025. In FY2026, the commissioning of solar power assets in a timely manner along with an improvement in CU and the steel price trend would remain the key rating sensitivities. While the working capital utilisation increased to ~84% in March 2025, the liquidity position is adequate with nil repayment and limited capital expenditure, going forward.

The ratings also consider KSIL's established track record in the steel industry, supported by over two decades of promoter experience, which provides operational stability and resilience against market volatility. The company's ongoing initiatives, including investments in captive power assets and the expected ramp-up of recent capacity expansion of the billet/rolling mills, are expected to enhance the cost efficiency and support a higher scale of operations over the medium term. However, the ratings also incorporate the company's exposure to raw material price fluctuations and exchange rate risks, given its reliance on imported scrap. Further, the inherent cyclicality of the steel industry, along with KSIL's dependence on the southern Indian market, increases its vulnerability to demand-supply imbalances, which could further constrain the cash flows. Intense competition in a fragmented structural steel market continues to limit the pricing flexibility, keeping the profit margins under pressure.

The Stable outlook on the long-term rating reflects ICRA's expectation that KSIL's performance is expected to improve, led by a ramp-up of the capacities and the commissioning of solar power assets.

Key rating drivers and their description

Credit strengths

Established presence and extensive experience of promoters - KSIL is a part of the OPG Group, which has an established presence in the steel manufacturing and power generation businesses. Its established presence of more than two decades and a stable customer base, which includes large public sector entities like Bharat Heavy Electricals Limited (BHEL), Larsen and Toubro Limited (L&T) etc, provide stability to its operations.

Benefits of structural cost savings and higher scale expected in FY2026 - The company is in the process of stabilising its recently expanded billet/rolling mill capacities in March 2024 that resulted in a low capacity utilisation of ~75% in FY2025. The capacity utilisation is expected to improve in the near term and support the earnings growth, going forward. The company's captive power solar project of 10.2 MW is now expected to come up in Q1 FY2026, delayed from the earlier estimates of Q4 FY2025. Nonetheless, once commissioned, it is expected to result in power savings, as the solar plant is expected to meet ~30% of the total requirement. The billet and rolling capacities were also enhanced in FY2025. Though a full ramp-up is yet to be achieved, it would improve the scale. The commissioning of solar power assets in a timely manner along with an improvement in the capacity utilisation and movement in steel prices would remain the key rating sensitivities.

Established customer base - The company's client profile comprises reputed players like BHEL and L&T, among others. ICRA derives comfort from KSIL's track record of a consistent order flow from its customer base, supporting its overall earnings over the years.

Credit challenges

Weaker-than-expected earnings in FY2025 impacting coverage metrics - KSIL's earnings remained weaker-than-expected in FY2025 owing to a delay in the commissioning of backward-integrated solar power projects and correction in steel prices. While ICRA highlighted the concerns over profitability in its November 2024 release, the reported operating profit of Rs. 8 crore remained even weaker than the revised estimates drawn in November 2024. Consequently, the operating margins remained subdued at 2.3% in FY2025. The leverage and coverage indicators also remained adverse with total debt/OPBDITA of 3.1 times and interest coverage of 2.1 times in FY2025.

Margins susceptible to fluctuations in raw material prices and foreign exchange rates; exposed to cyclicality in industry and regulatory risks due to emerging global trade uncertainties - KSIL's operations are raw material intensive with raw materials and consumables accounting for ~80% of its operating income over the last two fiscals. The company imports a part of its scrap requirement, which further exposes the company to fluctuations in exchange rates. Also, the domestic steel industry is cyclical in nature and is likely to keep the cash flows volatile for steel players, including KSIL. The company's operations are vulnerable to any adverse change in the demand-supply dynamics in the construction sector, especially in southern India. Global trade uncertainties, such as the imposition of tariffs on steel by major economies like the US, have reshaped the market dynamics and could further impact KSIL's operation.

High geographical concentration risk - The company's operations are mainly concentrated in southern India, exposing it to geographical concentration risk. A slowdown in steel demand in its key addressable markets could result in an overall decline in its revenues and profits in the future.

Intense competition from highly fragmented and commoditised steel market - The company is in the commoditised structural steel business, characterised by intense competition in the secondary steel sector, which limits the pricing flexibility of the players, including KSIL. As raw material costs are a crucial indicator of profitability, the margins remain susceptible to a large increase in raw material prices, which may not be commensurate with the rise in realisation of the products sold, going forward.

Environmental and social risks

Environmental considerations - Steel manufacturing is an energy-intensive process that requires substantial use of fossil fuels, resulting in greenhouse gas emissions, industrial waste generation and environmental pollution. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may push up costs for steel manufacturers in the medium term. This, in turn, leads to a greater focus on reducing the carbon footprint through various technological interventions, such as expanding the share of renewables in the energy mix etc. KSIL is adding 10.2 MW of captive solar assets to its portfolio, enhancing its energy efficiency and expanding the share of renewables in its energy mix.

Social considerations - Social risks for steel manufacturers manifest from the health and safety concerns of employees involved in manufacturing activities. Casualties or accidents at operating units due to gaps in safety practices could lead to production outages and invite penal action from regulatory bodies. The sector is also exposed to risks related to labour issues and protests by local communities, which might impact the expansion or modernisation plans. Additionally, the adverse impact of environmental pollution in nearby localities could trigger local criticism. The steel industry, therefore, must navigate these social risks carefully to maintain operational stability and community relations.

Liquidity position: Adequate

KSIL's liquidity position is adequate. While the lower profits impacted the cash flows from operations in FY2025, the prepayment of term loan through monetisation of wind power assets supported the liquidity to an extent. Going forward, the liquidity would also be supported by an expected improvement in the cash flow from operations, nil repayment and limited capital expenditure envisaged in FY2026.

Rating sensitivities

Positive factors – ICRA may upgrade KSIL's ratings if the company significantly improves its earnings and profit margins while maintaining comfortable debt coverage metrics and improving its liquidity position.

Negative factors - ICRA may downgrade KSIL's ratings if the company faces further delay in the commissioning of the ongoing capex, resulting in significantly weaker-than-expected profits. KSIL's ratings could also be downgraded if its liquidity position weakens. A specific credit metric for downgrade would be the interest coverage decreasing below 2.5 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Iron & Steel
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

KSIL, incorporated in 1995, manufactures structural steel products. The company has an installed rolling mill capacity of 100,000 tonnes per annum (TPA). KSIL is backward integrated with facilities to manufacture MS ingots (viz., induction furnaces with an installed capacity of 1,00,000 TPA). The company also trades in TMT bars. KSIL is a part of the OPG Group of Companies, which is involved in the steel and power businesses.

Key financial indicators (audited)

KSIL	FY2024	FY2025
Operating income	388.1	360.0
PAT	2.6	8.3
OPBDIT/OI (%)	1.7%	2.3%
PAT/OI (%)	0.7%	2.3%
Total outside liabilities/Tangible net worth (times)	1.0	0.7
Total debt/OPBDIT (times)	8.0	3.1
Interest coverage (times)	1.6	2.1

Source: Company, ICRA Research; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2026)			Chronology of rating history for the past 3 years					
	FY2026			FY2025		FY2024		FY2023	
	Type	Amount rated (Rs. crore)	Jun 06, 2025	Date	Rating	Date	Rating	Date	Rating
Fund based - Cash credit	Long term	30.00	**[ICRA]BB+ (Stable)**	19-Nov-2024	[ICRA]BBB- (Negative)	25-Sep-2023	[ICRA]BBB- (Stable)	30-Jun-2022	[ICRA]BB+ (Stable)
Fund based - Term loan	Long term	-	-	19-Nov-2024	[ICRA]BBB- (Negative)	25-Sep-2023	[ICRA]BBB- (Stable)	-	-
Non fund based - Others	Short term	41.00	**[ICRA]A4+**	19-Nov-2024	[ICRA]A3	25-Sep-2023	[ICRA]A3	30-Jun-2022	[ICRA]A4+
Unallocated	Long Term/ Short term	20.50	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	-	-	-	-	-	-
Untied Limits	Short term	-	-	-	-	-	-	30-Jun-2022	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Cash credit	Simple
Short term – Non-fund based- Others	Very Simple
Long term/Short term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Cash credit**	NA	NA	NA	30.00	[ICRA]BB+ (Stable)
NA	**Letter of Credit**	NA	NA	NA	41.00	[ICRA]A4+
NA	**Unallocated**	NA	NA	NA	20.50	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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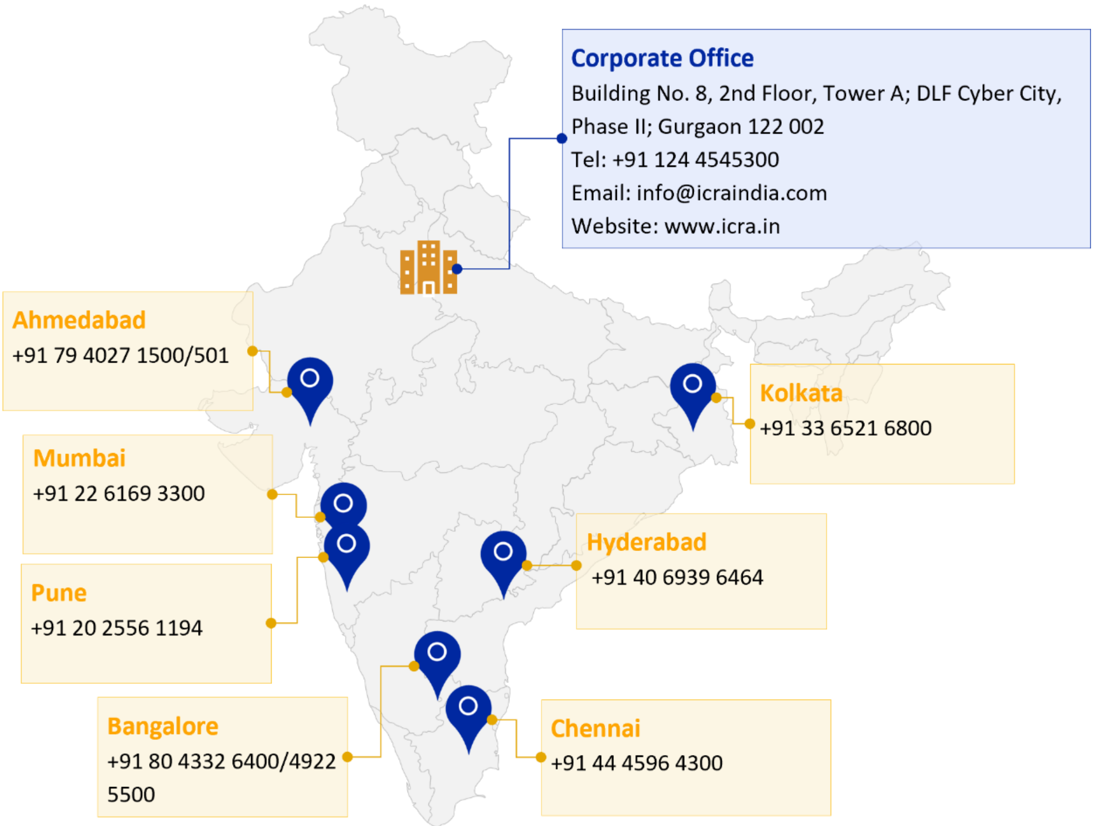

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