November 19, 2024

Kanishk Steel Industries Limited: Rating reaffirmed and outlook revised to 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]BBB- (Negative); reaffirmed and outlook revised to Negative from Stable
Long term fund-based - Term loans	20.50	20.50	[ICRA]BBB- (Negative); reaffirmed and outlook revised to Negative from Stable
Short term – Non-fund-based	41.00	41.00	[ICRA]A3; reaffirmed
Total	**91.50**	**91.50**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Negative considers the weaker-than-expected earnings of Kanishk Steel Industries Limited (KSIL) in FY2024 and the expected continuation of subdued earnings in the current fiscal as well. ICRA notes that this underperformance has been primarily driven by delays in stabilising its expanded billet/rolling mill capacities and challenges in reaping the full benefits of the billet hot charging facility. The commissioning of the billet facility to 1 lakh tonne per annum (TPA) (from 0.27 lakh TPA), initially targeted for Q4 FY2024, has been delayed, with limited benefits realised in H1 FY2025. Additionally, the company's renewable energy configuration was revised to 10.2 MW of solar capacity instead of the earlier planned 18 MW of wind capacity, reducing the anticipated power cost savings by 40-50% than earlier estimates. These factors, coupled with a challenging steel market, have resulted in a downward revision of KSIL's projected operating profits for FY2025 to ~Rs. 12 crore from ~Rs. 30 crore expected earlier, with full-year benefits now expected only in FY2026. Moreover, the through-the-cycle operating profits potential of the plant has also now been revised downwards to Rs. 20-25 crore, as against ~Rs. 30-35 crore/annum expected earlier).

ICRA notes that KSIL's liquidity position has also weakened, with the working capital utilisation levels rising to ~95% in September 2024 (against 75% in September 2023) due to higher inventory levels needed to support operation ramp-up and subdued earnings in H1 FY2025. However, KSIL's liquidity derives comfort from the company's asset monetisation of the vintage wind capacity in the current fiscal, which has led to pre-payment of all long-term debt and an on-balance sheet liquidity of Rs. 17.27 crore as on September 30, 2024.

The ratings 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 the fragmented structural steel market continues to limit the pricing flexibility, keeping the profit margins under pressure.

ICRA, however, takes comfort from 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 billet hot charging facilities, and significant capacity expansion of the billet/rolling mills are expected to enhance cost efficiency and support higher scale of operations over the medium term. Additionally, KSIL's earnings prospects remain supported by the healthy domestic infrastructure demand, which would aid domestic steel demand, in turn supporting the process of ramping up the operations. Going forward, the ramp-up of the expanded capacities, demonstration of cost-saving initiatives, ability to report profitability improvement and maintaining a comfortable liquidity position remain the key rating monitorables.

Key rating drivers and their description

Credit strengths

Established presence and extensive experience of the 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, lend stability to its operations.

Benefits of structural cost savings and higher scale expected to fully flow in from FY2026 - The company is looking to enhance its cost competitiveness by taking measures, such as setting up a billet hot charging facility to eliminate reheating and reduce fuel costs and enhancing the captive billet capacity to 1 lakh TPA (from 0.27 lakh TPA, operational from March 2024) to lower costlier external purchases. ICRA expects the benefits of these cost-reduction measures to gradually start flowing in from H2 FY2025, which should support the turnover and earnings growth, going forward.

On the captive power integration front, the configuration has now been revised down to 10.2 MW of solar assets (scheduled to be commissioned by the end of FY2026 which is to be funded by monetising KSIL's 10.5 MW of existing vintage captive wind assets) in place of the earlier plan of having 18-MW wind assets (which included setting up an additional 7.5 MW of wind assets). ICRA notes that given the lower captive power capacity in the new plant configuration, the power cost savings will be 40-50% less than the earlier estimates, prompting ICRA to revise downwards the through-the-cycle operating profits potential of the plant to ~Rs. 20-25 crore/annum now from ~Rs. 30-35 crore/annum assumed earlier.

Credit challenges

Weaker-than-expected earnings in FY2024; meaningful improvement in earnings unlikely in FY2025 as well - KSIL's operating performance in FY2024 fell short of ICRA's expectations due to delays in stabilising its expanded billet capacity and challenges in the domestic steel market because of elevated steel imports. ICRA does not expect a meaningful improvement in earnings in the current fiscal as well, and the full-year benefits of the ongoing investment are now deferred to FY2026. Going forward, the ramp-up of expanded capacities, demonstration of cost-saving initiatives, ability to report profitability improvement and maintaining a comfortable liquidity position remain the key rating monitorables.

Deterioration in liquidity position following a delay in scaling up of operations and subdued earnings; working capital utilisation rose to ~95% in September 2024 - The delays in project execution, elevated inventory levels and subdued earnings in FY2024 and H1 FY2025 have weakened KSIL's liquidity. The working capital utilisation reached ~95% in September 2024, up from over 75% in September 2023, leaving limited headroom. However, during this period of asset ramp-up and subdued earnings, the monetisation of the vintage wind assets supported KSIL's liquidity position.

Susceptibility of margins to fluctuation in raw material prices and foreign exchange rates; exposure to cyclicality inherent in steel industry - KSIL's operations are raw material intensive with raw materials and consumables accounting for 80-90% 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.

Intense competition in 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 match with a commensurate increase in the realisation of the products sold, going forward.

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.

Liquidity position: Adequate

KSIL's liquidity position deteriorated in FY2024 following the ongoing capex and subdued cash flow from operations. In March 2024, the utilisation of working capital limits increased to 94% from 75% in September 2023. While the working capital utilisation remained elevated in mid-November 2024 as well at 82%, the asset monetisation of the vintage captive wind assets in the current fiscal helped the company to remain long-term debt free in Q3 FY2025, and build-up a cash & liquid investment bank balance of ~Rs. 13.03 crore as of mid-November 2024, which supports the overall liquidity position. This along with the gradual expected improvement in quarterly earnings, is expected to improve the liquidity position for the rest of FY2025. Therefore, the liquidity has been assessed at adequate.

Rating sensitivities

Positive factors - ICRA may revise the outlook of KSIL's ratings to Stable if the company significantly improves its scale of operations and profit margins while maintaining comfortable debt coverage metrics and liquidity profile.

Negative factors - ICRA may downgrade KSIL's ratings if the company is unable to scale up the operations and increase its profitability, resulting in significantly weaker-than-expected profits. Further, KSIL's ratings could also be downgraded if its liquidity position weakens. A specific credit metric for downgrade includes the interest coverage metric falling below 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology 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 27,000 TPA, being expanded to 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)

	FY2023	FY2024
Operating income	402.2	388.1
PAT	9.5	2.6
OPBDIT/OI	2.4%	1.7%
PAT/OI	2.4%	0.7%
Total outside liabilities/Tangible net worth (times)	0.8	1.0
Total debt/OPBDIT (times)	5.1	8.0
Interest coverage (times)	8.0	1.5

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	30.00	19-Nov-2024	[ICRA]BBB- (Negative)	25-Sep-2023	[ICRA]BBB- (Stable)	30-Jun-2022	[ICRA]BB+ (Stable)	-	-
Term loans	Long term	20.50	19-Nov-2024	[ICRA]BBB- (Negative)	25-Sep-2023	[ICRA]BBB- (Stable)	-	-	-	-
Non-fund based	Short term	41.00	19-Nov-2024	[ICRA]A3	25-Sep-2023	[ICRA]A3	30-Jun-2022	[ICRA]A4+	-	-
Untied limits	Short term	-	-	-	-	-	30-Jun-2022	[ICRA]A4+	-	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long-term fund-based - Term loans	Simple
Short term – Non-fund based	Very Simple

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]BBB- (Negative)
NA	**Term loans**	March 2023	NA	FY2030	20.50	[ICRA]BBB- (Negative)
NA	**Non-fund based**	NA	NA	NA	41.00	[ICRA]A3

Source: Company

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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