

October 06, 2017

## Kusum Metals Private Limited

### Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long Term Fund-based	4.00	[ICRA]B+ (Stable); reaffirmed
Short Term Fund-based	30.00	[ICRA]A4; reaffirmed
<b>Total</b>	<b>34.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus )<sup>1</sup> and the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 34.00-crore bank facilities of Kusum Metals Private Limited (KMPL). The outlook on the long-term rating is 'Stable'.

### Rationale

The reaffirmation of the ratings takes into account the long-standing experience of the promoter group in the steel scrap trading business. Furthermore, the presence of group entities in Europe, the Middle East, and Indonesia has led to sourcing advantages and an established customer profile has enabled the company to scale up its volumes within a short span of time. The ratings also factor in KMPL's capital structure characterized mostly by working capital borrowings with no repayment pressure; however coverage indicators remain stretched. The ratings are, however, constrained by KMPL's large outstanding payable position leading to elevated Total Outside Liabilities to Tangible Net Worth (TOL:TNW) ratio and stretched working capital metrics driven by high receivables. High dependence on working capital debt coupled with the trading nature of its business has resulted in moderate profitability and debt protection indicators. The rating also factors in KMPL's small scale of operations and the fragmented and competitive nature of the industry, which limits the pricing flexibility and exposes the company to fluctuations in raw material prices and foreign exchange fluctuations as evidenced in the past.

### Key rating drivers

#### Credit Strengths

- **Long-standing experience of the promoters in the steel scrap trading segment with a global network of entities operating out of UK, Singapore, Dubai, etc:** The promoters are involved in metal scrap business since 1996 through its Indian company M/s Kusum Metals Pvt Ltd and International flagship company Global Metcorp Ltd, with its registered office in London to source scrap from Europe.
- **Access to high quality scrap imports mainly through the Group's presence in Europe and Middle East:** The company imports high quality steel scrap in containers from the UK, the USA, Dubai and Singapore and caters to various customers in India, Malaysia, Singapore, Pakistan, Bangladesh, Vietnam, Indonesia, Spain and other far eastern markets.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

- **Diversified product profile with company trading in all grades of scrap:** The products traded are various grades of iron, cast iron, steel, stainless steel and aluminum scraps, in addition to TMT bars and billets. From FY2016, the company has shifted its new portfolio additions – Rice and Steam Coal divisions to its group companies resulting in substantial reduction in traded volumes and focussed majorly on HMS and other steel scraps. The company is able to source a high percentage of these products due to the procurement from Europe and other developed countries where recycling rates are higher as compared to India.

#### **Credit Weaknesses**

- **Margins exposed to cyclical nature of industry in addition to volatility witnessed in scrap prices and forex:** The company sources scrap predominantly through imports and sell them exclusively in the domestic market. Hence due to the absence of a natural hedge, the company's margins are exposed to exchange fluctuation risks. Moreover, because of the volatility in prices and the trading nature of operations, the margins of the company remain stressed.
- **Thin operating margins due to low value added nature of business; net margins further subdued due to high financial expenses arising out of forex fluctuations:** Due to the trading nature of the business where no major value addition is done to the products, the margins remain thin restricting the growth of the business. Net margins have also been low over the years and impacted due to forex losses arising through high forex payables and financial expenses arising from LC discounting.
- **Financial profile characterized by moderately high gearing and stretched coverage indicators:** The company's debt profile comprises of buyer's credit, cash credit and term loans with Rs. 22.23 crore outstanding as on March 31, 2017. Despite regular debt repayment and low working capital utilisation, gearing remains moderately high at 1.63 times in FY2017, although improving from 2.35 times in FY2016. KMPL's TOL/TNW has witnessed moderation from levels in initial years, but nevertheless remained stretched at 4.26 times as on March 2017. Interest coverage indicator also remains stretched due to lower operating profit and high financial expense.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### **Links to applicable Criteria**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Ferrous Metals Industry](#)

[Rating Methodology for Trading Companies](#)

#### **About the firm:**

Kusum Metals Pvt. Ltd. (KMPL), established in 2008, is part of the Greta Group of Companies founded by the Chennai- based Chaudhari family. The Group commenced operations in 1996, and is primarily engaged in trading scrap from end-of-life vehicles/consumer products and construction/demolition activities. The business of the erstwhile firm–Kusum International, set up in 1996–was taken over by KMPL in 2008. The company has a 2.37-acre scrap yard at Vallur III Village, Ponneri Taluk, Tiruvallur District in Tamil Nadu. The Group has been involved in the metal scrap business since 1996 through its International flagship company–Global Metcorp Limited, UK. Other Group entities include Greta Energy Limited, which operates a 15 MW (megawatt) biomass-based power plant at Chandrapur, Maharashtra; and Dyna Agro Private Limited which operates a 36,000MTPD (metric tons per day ) flour mill in Andhra Pradesh. The Group also holds coal assets in East Kalimantan, Indonesia, through Greta Industries Private Limited. The Group is also setting up a steel plant–Greta Steels Limited– with a 130-Ton Per Day (TPD) coal washery, as well as two 350-TPD Direct Reduced Iron (DRI) plants, near Tbilisi, Georgia.

**Key Financial Indicators (Audited):**

	FY2015	FY2016
Operating Income (Rs. crore)	217.22	118.57
PAT (Rs. crore)	0.75	0.37
OPBDIT/ OI (%)	0.75%	3.56%
RoCE (%)	7.55%	9.39%
Total Debt/ TNW (times)	2.50	2.35
Total Debt/ OPBDIT (times)	19.66	7.36
Interest coverage (times)	1.13	1.16
NWC/ OI (%)	18.10%	14.47%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*  
*NWC: Net Working Capital*

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

**Any other information:** Not Applicable

**Rating history for last three years:**

**Table:**

S. No.	Instrument	Current Rating (FY 2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2015	Date & Rating in FY2014
				October 2017	December 2016	November 2014	April 2013
1	Long Term Fund-based	Long Term	4.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]BB- (Stable)
2	Short Term Fund-based	Short Term	30.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Name of the instrument</b>	<b>Date of issuance / sanction</b>	<b>Coupon rate</b>	<b>Maturity</b>	<b>Amount Rates (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	4.00	[ICRA]B+ (Stable)
Short Term Fund Based	-	-	-	30.00	[ICRA]A4

Source: The company

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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.

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