March 19, 2021

Kanishk Steel Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based facilities	22.50	22.50	[ICRA]BB+(Stable); Reaffirmed
Short-term Non-fund based facilities	48.00	48.50	[ICRA]A4+; Reaffirmed
Short-term Unallocated	21.00	20.50	[ICRA]A4+; Reaffirmed
Total	**91.50**	**91.50**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings considers Kanishk Steel Industries Limited's (KSIL) established presence and experienced promoters in the steel industry, spanning over two decades. The ratings also consider KSIL's partially-integrated operations and its ongoing capacity addition, which coupled with its low-cost power sourcing from the Group captive, help in controlling costs to some extent. ICRA also notes the company's established customer base that ensures repeat orders over the years. Further, the ratings derive comfort from its healthy capital structure and modest working capital intensity.

However, the ratings continue to be constrained by KSIL's modest operating performance, characterised by a moderate scale of operation and thin operating margins. Despite an improvement in the demand conditions and steel prices in 9MFY2021, KSIL's volume and contribution levels are constrained by the intense competition caused by the highly commoditised and fragmented steel industry structure and the firm operating costs. Besides, KSIL's business is vulnerable to the inherent industry cyclicality and forex fluctuation risk, which often result in a volatile operating margin. ICRA also notes of KSIL's moderate liquidity profile with advances extended to the group entity.

The Stable outlook reflects ICRA's expectation that KSIL will continue to benefit from its established presence, experienced promoters, and the ongoing expansion of induction furnace capacity that is likely to support the margins in the medium term.

Key rating drivers and their description

Credit strengths

Established presence and extensive experience of the promoter – KSIL is a part of the OPG Group, which has an established presence in steel manufacturing and power generation businesses. Established presence of more than two decades, coupled with a relatively stable customer base, which includes large public-sector entities like Bharat Heavy Electricals Limited (BHEL), lends stability to its operations.

Partly integrated operations - KSIL has a partially-integrated operations with capabilities to manufacture MS billets/ingots and structural steel products, which coupled with its low-cost power sourcing from the Group captive, helps in controlling costs to an extent. Further, the company's ongoing expansion of induction furnace capacity to 55,000 MTPA from 25,000 MTPA are likely to support the margins in the medium term.

Comfortable capital structure and modest working capital intensity – KSIL's capital structure remains healthy, as illustrated by a gearing of 0.4 times and total outside liabilities to net worth (TOL/TNW) of 1.3 times as on March 31,2020. Further, its working capital intensity remained modest, at 15% in FY2020, because of lower debtor and moderate inventory levels.

Credit challenges

Modest operating performance – KSIL has a modest operating performance, characterised by a moderate scale of operations (OI of Rs. 257.2 crore in FY2020) and thin operating margins (OPM of 2.3% in 9M FY21). Its revenue growth would be subject to an improvement in steel price realisations, given the high capacity utilisation of the rolling mill capacity in FY2020. Further, KSIL's profitability remains subdued because of its limited pricing flexibility and modest contribution levels, owing to intense competition in the highly fragmented and commoditised steel industry and firm operating costs.

Exposure to cyclicality inherent in the steel industry – The domestic steel industry is cyclical in nature, which impacts the cash flows of the long product manufacturers, including KSIL. The company's operations are vulnerable to adverse changes in the demand-supply dynamics in the real estate, auto and construction sector, especially in Tamil Nadu. KSIL's operating margins declined to 0.8% in FY2020 from 3.2% in FY2019 due to a decline in steel prices realisation and inventory losses owing to adverse market conditions. However, it improved to 2.3% in 9MFY2021 due to better demand conditions and steel prices realisation in 9MFY2021, post the Covid-19 pandemic related lockdown. As a result, the company's coverage metrics such as interest coverage and TD/OPBITDA improved to 3.0 times and 4.4 times in 9M FY2021 from 0.9 times and 8.0 times in FY2020 respectively.

Liquidity position: Adequate

KSIL's liquidity position remains **adequate,** with modest working capital intensity (15.1% in FY2020), because of low debtor days. Further, its moderate working capital utilisation (45% on an average) with adequate buffer in its working capital limits in the past 12-month period ended February 2021, no long-term debt repayment and limited capex plans will enable adequate liquidity. KSIL has paid land advances worth Rs. 12.09 crore to OM Power Shakthi India Pvt. Ltd. for constructing a windmill in Periyapalayam, Chennai, which has constrained its liquidity profile to some extent. However, timely recovery of advances extended remains a key rating factor

Rating sensitivities

Positive factors – ICRA may upgrade KSIL's rating if it improves its profitability and debt coverage metrics on a sustained basis. Specific credit metrics that may lead to an upgrade of KSIL's rating is interest coverage improving above 3.0 times on a sustained basis.

Negative factors – Negative pressure on KSIL's rating may arise if its profitability metrics continue to be subdued. Further, KSIL's ratings could also be downgraded if its liquidity position weakens because of an increase in working capital intensity or increase in non-current assets. Specific credit metrics that may lead to a downgrade of KSIL's ratings is TD/OPBITDA increasing above 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Incorporated in 1995, KSIL manufactures structural steel products. It has an installed rolling mill capacity of 70,000 tonne per annum (TPA). The company is backward integrated with facilities to manufacture MS ingots/billets (viz., induction furnaces with installed capacity of 25,000 TPA). It is also involved in the trading of steel scrap and other steel products. KSIL is a part of the OPG Group, which is involved in steel and power businesses. The inputs to the induction furnaces are met through a mixture of imports and local purchases. The company utilises ingots produced inhouse as its raw material for its rolling mill and procures a considerable portion of the ingots/billets requirement from other companies.

Key financial indicators (audited)

KSIL	FY2019	FY2020	9M FY21
Operating Income (Rs. crore)	330.29	257.23	180.51
PAT (Rs. crore)	4.3	2.0	2.0
OPBDIT/OI (%)	3.2%	0.8%	2.3%
RoCE (%)	22.4%	7.9%	*
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.3	*
Total Debt/OPBDIT (times)	1.8	8.0	4.4
Interest Coverage (times)	2.4	0.9	3.0
DSCR (times)	2.2	1.6	*

*Source: Company; All ratios as per ICRA's calculations; *unknown*

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2020 (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Mar 19, 2021	Feb 20,2020	Jun 06,2019	Jul 02,2018	Jul 05,2017
1	Cash Credit	Long term	22.50	17.0	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Non fund based limits	Short term	48.50	9.42	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3	Unallocated	Short term	20.50	-	[ICRA]A4+	[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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	22.50	[ICRA]BB+ (Stable)
NA	Letter of Credit/Bank Guarantee	NA	NA	NA	48.50	[ICRA]A4+
NA	Unallocated	NA	NA	NA	20.50	[ICRA]A4+

Source: *Company*

Annexure-2: 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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