June 30, 2022

Kanishk Steel Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	22.50	22.50	[ICRA]BB+ (Stable); Reaffirmed
Letter of Credit	48.50	48.50	[ICRA]A4+; Reaffirmed
Untied Limits	20.50	20.50	[ICRA]A4+; Reaffirmed
Total	**91.50**	**91.50**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in Kanishk Steel Industries Limited's (KSIL/company) established presence and experienced promoters in the steel industry, spanning over two decades. The company's operating profile benefits from its partially integrated operations, supported by MS billets/ingots and structural steel manufacturing facilities, which coupled with its low-cost power sourcing under the group captive arrangement leads to a competitive cost structure. ICRA notes that the company is in the process of installing an MS billet manufacturing unit with a capacity of 75,000 metric tonnes per annum (MTPA) to replace its MS ingot manufacturing unit which has a current capacity of 25,000 MTPA to meet its semis requirement to a large extent, thereby reducing its dependence on the costlier external billet purchases. Once the facility is commissioned in the current fiscal, it is expected to further improve its cost position. While KSIL reported better-than-expected growth in its earnings in FY2022, supported by a sharp rebound since H2 FY2021, the earnings outlook for FY2023 remains much weaker now as steel prices have witnessed sharp corrections in the current fiscal so far. The ratings also factor in the company's established customer base that ensures repeat orders over the years. Further, the ratings derive comfort from its healthy financial profile, characterised by the company's low reliance on external borrowings, resulting in comfortable debt protection metrics.

However, the ratings continue to be constrained by KSIL's modest operating performance, characterised by a moderate scale of operation and thin operating margins. ICRA notes that KSIL's modest scale of operations makes it vulnerable to a period of sustained industry downturn. Moreover, ICRA believes that the company's earnings are likely to moderate in the current fiscal as elevated energy costs, steel price corrections following the levy of export duty on steel products and muted domestic demand so far affect the profit margin. The ratings also reflect intense competition caused by the highly commoditised and fragmented long-product segment. Besides, KSIL's business is vulnerable to the inherent industry cyclicality, which often result in volatility in raw material and product prices. KSIL remains exposed to geographical concentration risks as well given its high dependence on the southern region.

The Stable outlook on the long-term rating reflects ICRA's expectation that KSIL will continue to benefit from the promoter's demonstrated track record in the steel business and the company's limited dependence on external debt, which despite an expected weakening in earnings in the current fiscal, would keep the credit indicators at comfortable levels.

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 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.

Partly integrated operations – KSIL has a partially integrated operations with capabilities to manufacture MS billets/ingots and structural steel products. Besides, its low-cost power sourcing under the group captive arrangement helps in controlling the costs to an extent. Further, the company's ongoing expansion of induction furnace capacity to 75,000 MTPA from 25,000 MTPA would decrease the purchase of costlier billets, going forward, and are therefore likely to support the margins in the medium term.

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

Comfortable capital structure – The company has no long-term external borrowings and has working capital borrowings of only Rs. 11.22 crore outstanding as on March 31, 2022. The utilisation of fund-based limits remained moderate during the 12-month period ended in March 2022. Low debt levels and improvement in net worth in FY2022, aided by healthy accruals over the years, resulted in a comfortable capital structure with a gearing and TOL/TNW[1] of 0.2 times and 0.7 times, respectively as on March 31, 2022. Low debt levels and strong earnings growth led to a comfortable interest coverage of 13.2 times in FY2022.

Credit challenges

Intense competition and susceptibility of profitability to volatility in raw material prices and product prices – 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 play 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 realisation of products sold, going forward.

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

Modest scale of operations – The firm's scale of operations remains modest, which makes it vulnerable to a prolonged period of industry downturn.

Exposure to cyclicality inherent in steel industry – The domestic steel industry is cyclical in nature, which exposes KSIL to an elevated level of volatility in earnings across business cycles. The company's earnings are vulnerable to adverse changes in the demand-supply dynamics in the real estate, auto and construction sectors, especially in Tamil Nadu.

Liquidity position: Adequate

KSIL's liquidity position is adequate, supported by heathy cash flows from operations and nil long-term debt obligations. The liquidity profile is further supported by unutilised fund-based limits of Rs. 11.28 crore as of March 2022. Utilisation of fund-based limits has remained at a moderate level in the recent months (average of 41%) owing to efficient receivables management by the company.

[1] Total Outside Liabilities / Tangible Net Worth

Rating sensitivities

Positive factors – ICRA may upgrade KSIL's ratings if it improves its scale of operations and profit margins while maintaining comfortable debt coverage metrics. Specific credit metrics that may lead to an upgrade of KSIL's ratings include interest coverage improving above 3.0 times on a sustained basis.

Negative factors – Pressure on KSIL's ratings may arise if its profitability metrics continue to remain subdued. Further, KSIL's ratings could also be downgraded if its liquidity position weakens. Specific credit metrics that may lead to a downgrade of KSIL's ratings include Total Debt/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 Ferrous Metal Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

Incorporated in 1995, KSIL manufactures structural steel products. It has an installed rolling mill capacity of 70,000 tonnes per annum (TPA). The company is backward integrated with facilities to manufacture MS ingots/billets (viz., induction furnaces with an installed capacity of 25,000 TPA, which is currently being expanded to 75,000 MTPA). It also trades in 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 mix of imports and local purchases. The company utilises ingots produced in house as its raw material for its rolling mill and procures a considerable portion of the ingots/billets requirement from other companies. However, external billet purchases are expected to come down significantly following the expected commissioning of the expanded billet capacity in FY2023

Key financial indicators

KSIL (Standalone)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	257.2	245.4	314.19
PAT (Rs. crore)	2.0	5.7	26.3
OPBDIT/OI (%)	0.8%	-5.1%**	5.6%
PAT/OI (%)	0.8%	2.3%	8.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	0.8	0.7
Total Debt/OPBDIT (times)	8.0	-1.4	1.0
Interest Coverage (times)	0.9	-6.9	13.2

*Source: KSIL Audited Financials; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; **KSIL reported an operating loss in FY2021 due to a one-time provision of Rs. 16.22 crore towards doubtful advances/deposits and expected credit loss*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jun 30, 2022	-	Mar 19, 2021	Feb 20, 2020	Jun 06, 2019
1	Cash Credit	Long term	22.50	11.2	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)
2	Letter of Credit	Short term	48.50	5.2	[ICRA]A4+	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3	Untied Limits	Short term	20.50	-	[ICRA]A4+	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Source: Company data

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple
Untied Limits	NA

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN /Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	22.5	[ICRA]BB+ (Stable)
NA	Letter of Credit	NA	NA	NA	48.5	[ICRA]A4+
NA	Untied Limits	NA	NA	NA	20.5	[ICRA]A4+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable		

ANALYST CONTACTS

Jayanta Roy
+91 33-71501100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22-61693328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33-61143438
ritabrata.ghosh@icraindia.com

Brinda Goradia
+91 22-61693341
brinda.goradia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches