Press Release

Kalika Steel Alloys Private Limited

April 29, 2024

Ratings:

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple/ Complex/ Highly complex)
Long Term Bank Facilities	298.46 (Enhanced from Rs. 296.10 crore)	IVR A-/ Stable Outlook [IVR Single A Minus with Stable Outlook]	Reaffirmed	Simple
Short Term Bank Facilities	40.00 (Reduced from Rs. 45 Cr.)	IVR A2+ [IVR A Two Plus]	Reaffirmed	Simple
Total	**338.46 (Rupees Three hundred and thirty-eight crores and forty-six lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has reaffirmed its rating on bank facilities of Kalika Steel Alloys Private Limited (KSIL) due to sustained performance during FY23 and completion of capex within the projected timeline and became operational from March 2024. The rating continues to derive strength from experienced management, established market presence, improving scale of operations and moderate debt coverage metrics. However, these rating strengths remain constrained by intense competition from the unorganized sector and cyclicality in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in its revenues and improvement in its liquidity position while maintaining healthy profit margins.

- Significant improvement in debt protection parameters and liquidity position of the company

Downward Factors

- Significant decline in the company's profitability leading to an adverse impact on its profitability, credit protection metrics and liquidity position.
- Withdrawal of subordinated unsecured loan and/or moderation in overall gearing ratio of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Management

Kalika group has more than two decade of operations and is currently controlled and managed by the first-generation entrepreneurs. The group is closely held by Mr. Ghanshyamdas Goyal, Mr. Arun Agrawal, Mr. Anil Goyal, and Mr. Manoj Jindal who are actively involved in the company Mr. Ghanshyamdas Goyal manages the company in the strength of director and has more than two decades of experience in the steel industry through the promoter owned company Giriraj Rerolls Private Limited. He is engaged in the business of manufacturing of M.S Bars and supply of M.S. scrap to ingot manufacturers. Mr. Arun Agrawal, a postgraduate in business administration spearheads the company as a director. Mr. Agrawal has close to two decades of experience in the steel industry. Further, the promoter has other business in Jalna including trading of textile Sagar Paridhan Private Limited. The top management at KSAPL is ably supported by a qualified and professional senior management team who look after various activities such as production, sourcing and operations.

Established market presence

The products of KSAPL are sold under the brand name 'Kalika'. The brand 'Kalika' is owned by the group and has an established presence in the market especially in Maharashtra. The company sells its products through the wide network of dealers spread across Western India especially in Pune, Jalna, Aurangabad and Mumbai.

Improving Scale of Operations

The revenue of the company grew by ~33% and stood at Rs. 1574.99 Cr. in FY23 as against Rs. 1182.89 Cr. in FY22 on the back of an increased production of TMT bars from 2,24,202MT in FY2022 to 2,68,335MT in FY2023 coupled with increased average sales realization. In tandem with the increasing revenues of the company, the operating profits of the company have increased in absolute terms with EBITDA at Rs. 92.85 Cr. in FY23 as against Rs. 54.27 Cr. in FY22. The EBITDA margins of the company also improved to 5.90% in FY23 from that of 4.59% in FY22 on account increased average sales realization. With improved revenue and realisations, the PAT increased and stood at Rs. 61.81 Cr. in FY23 as against Rs. 29.70 Cr. in FY22 and PAT margin at 3.87% in FY23 improving from 2.47% in FY22. The company has a healthy financial risk profile on account of healthy cash accruals and accumulation of a high net worth over the years. Simultaneously, ROCE for FY23 improved to 14.10% from that of 8.55% in FY22. Revenue is expected to further improve FY25 onwards on the back of increased orders from existing customers/new customers, which is mainly on account of the ongoing capex plan being undertaken by the company.

Moderate Debt Coverage Metrics

With comfortable profitability and debt repayment obligations, company's coverage metrics remained moderate, as depicted by an interest cover of 4.06x in FY23 improving from 2.38x in FY22. The DSCR stood at 2.95x in FY23 improving from 1.74x in FY22. However, the company's overall debt level increased as the company completed its capex and related term loans were disbursed. On account of the ongoing capex, there would be some moderation in the capital structure and debt coverage indicator; however, the same is expected to be at comfortable levels. The entire capacity expansion has been completed in February 2024. The total manufacturing facility has become operational from March 2024.

Key Rating Weaknesses

Intense competition from the unorganized sector

The steel industry is characterized by high degree of fragmentation due to the presence of the large numbers of unorganized players. Further, low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power vis-à-vis the customers.

Cyclical nature of steel industry

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch.

Analytical Approach: Standalone approach

Applicable Criteria:

- Rating Methodology for Manufacturing Companies
- Financial Ratios & Interpretation (Non-Financial Sector)
- Criteria of Rating Outlook | Infomerics Ratings

Liquidity – Adequate

The company has a current ratio of 1.85x as on March 31, 2023, and an average cash credit utilization of ~20% reflecting an adequate liquidity position. The liquidity position of the company is further supported by sufficient accruals in tune of Rs 74.01 Cr. as against a debt repayment obligation of Rs ~40 Cr. during FY23.

About the Company

Kalika Steel Alloys Private Limited (KSAPL) is part of the Jalna (Maharashtra) based 'Kalika' group. KSAPL, incorporated in October 2002, is engaged in the production of TMT bars with an installed capacity of 2,50,000 MTPA. It is backward integrated with an installed capacity to manufacture 2,50,000 MTPA of billets which has increased to 4,00,000MT after completion of expansion project. The company has its manufacturing facility at Jalna MIDC, Jalna, and is closely held by the four directors Mr. Ghanshamdas Goyal, Mr. Arun Agrawal, Mr. Anil Goyal and Mr. Manoj Jindal and/or other family members of the directors/company owned by directors.

Financials (Standalone):

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	1182.89	1574.99
EBITDA	54.27	92.85
PAT	29.70	61.81
Total Debt	171.61	181.37
Adj. Tangible Net worth	392.37	398.46
EBITDA Margin (%)	4.59	5.90
PAT Margin (%)	2.47	3.87
Overall Gearing Ratio (times)	0.44	0.46

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Care ratings has migrated the rating to ISSUER NOT COOPERATING Issuer did not cooperate with information vide press release dated December 28, 2023.

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Term loans	Long-term	118.46 (Enhanced from Rs. 116.01 Cr.)	IVR A-/ Stable Outlook	IVR A-/ Stable Outlook	--	--
2.	Cash Credit	Long-term	180.00	IVR A-/ Stable Outlook	IVR A-/ Stable Outlook	--	--
3.	Bank guarantee	Short-term	40.00 (Reduced from Rs. 45 Cr.)	IVR A2+	IVR A2+	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term loan			Dec 2027	29.83	IVR A-/ Stable Outlook
Term loan			Dec 2027	27.50	IVR A-/ Stable Outlook
Term loan			Dec 2027	30.00	IVR A-/ Stable Outlook
Term loan			Dec 2027	10.00	IVR A-/ Stable Outlook
GECL			Sept 2028	21.13	IVR A-/ Stable Outlook
GECL			Sept 2029		IVR A-/ Stable Outlook
Cash Credit			Revolving	45.00	IVR A-/ Stable Outlook
Cash Credit			Revolving	75.00	IVR A-/ Stable Outlook
Cash Credit			Revolving	25.00*	IVR A-/ Stable Outlook
Cash Credit			Revolving	35.00	IVR A-/ Stable Outlook
Bank guarantee			-	20.00	IVR A2+
Bank guarantee			-	5.00	IVR A2+
Bank guarantee			-	15.00	IVR A2+

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Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-KalikaSteelAlloys-apr24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com