

Press Release

Kamachi Steels Limited

18 April, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 23.00 Cr. (Enhanced from Rs.22.00 Cr)
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B' (read as SMERA B)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the enhanced amount of Rs. 23.00 crore bank facilities of Kamachi Steels Limited. The outlook is '**Stable**'.

The Chennai-based KSL, incorporated in 1995 by Mr. Ghisulal Kothari is a part of the Kamachi group of companies. The company manufactures steel billets and TMT bars.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The promoters of KSL, Mr. Ghisulal Kothari and Mr. Shantilal Kothari have experience of more than two decades in the steel industry. KSL backed by their experienced management and has been able to generate healthy relations with various reputed clientele like DRDA.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by Gross Current Asset days of 268 and 350 in FY2017 and FY2016 respectively. The high GCA days emanate from high inventory holding of 93 days and collection days of 113 for FY2017. Further the cash credit utilization for the past six months stood at around 95 percent.

- **Exposure to volatility in raw material prices**

The major raw materials procured by the company include steel bar and iron component. The raw material cost constitutes around 70 percent of the total sales for FY2017. Prices of steel are highly volatile in nature. Hence, profitability of the company is exposed to volatility in raw material prices.

- **Competitive and fragmented industry**

KSL operates in a highly fragmented and unorganized market for manufacturing of bearing components with presence of large number of players in the unorganized sector limits the bargaining power with customers.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of KSL to arrive at the rating.

Outlook: Stable

SMERA believes that KSL will maintain a stable outlook on account of its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenue and net cash accruals while maintaining healthy debt protection metrics.

Conversely, the outlook may be revised to 'Negative' if the firm registers lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	189.85	139.33	248.05
EBITDA	Rs. Cr.	-3.75	6.21	5.98
PAT	Rs. Cr.	-5.56	0.42	4.03
EBITDA Margin	(%)	-1.97	4.46	2.41
PAT Margin	(%)	-2.93	0.30	1.62
ROCE	(%)	-7.60	7.13	13.56
Total Debt/Tangible Net Worth	Times	1.08	1.15	1.20
PBDIT/Interest	Times	-1.01	1.38	1.63
Total Debt/PBDIT	Times	-8.62	6.06	6.48
Gross Current Assets (Days)	Days	268	350	168

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Available

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Mar-2018	Cash Credit	Long Term	INR 17	SMERA B / Stable (Reaffirmed)
	Letter of Credit	Short Term	INR 5	SMERA A4 (Reaffirmed)
09-Feb-2018	Cash Credit	Long Term	INR 17	SMERA B (Indicative)
	Letter of Credit	Short Term	INR 5	SMERA A4 (Indicative)
12-Oct-2016	Cash Credit	Long Term	INR 17	SMERA B / Stable (Assigned)
	Letter of Credit	Short Term	INR 5	SMERA A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	SMERA B / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00 (Enhanced from Rs.5.00 Cr)	SMERA A4 (Reaffirmed)

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