

Press Release

Kamachi Steels Limited

June 11, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs.23.00 Cr.
Long Term Rating	ACUITE D (Downgraded from ACUITE B/Stable)
Short Term Rating	ACUITE D (Downgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating of '**ACUITE B**' (read as **ACUITE B**) to '**ACUITE D**' (read as **ACUITE D**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) to '**ACUITE D**' (read as **ACUITE D**) to the Rs. 23.00 crore bank facilities of Kamachi Steels Limited (KSL).

Rating downgrade is on account of devolvement in letter of credit for more than 30 days. Company has registered net loss of Rs.2.27 crore for the FY2018 as against net loss of Rs.5.56 crore in FY2017. Further, operating margins stood at 0.53 per cent for the FY2018 as against negative margins of 1.97 per cent in FY2017.

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.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of KSL to arrive at the rating.

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 has been able to generate healthy relations with various reputed clientele like DRDA.

- **Healthy scale of operations**

The company has reported healthy revenue growth with compounded annual growth rate (CAGR) of around 55.00 percent through the last three years ended 31 March, 2018. The company reported significant revenue growth of ~76 percent with operating income of Rs.334.37 crore in FY2018 as against operating income of Rs.189.85 crore in FY2017. However, it has registered revenues of Rs.366.52 crore for the period April, 2019 to March, 2019 (Provisional).

Weaknesses

- **Delay in debt servicing obligation**

The rating reflects delays in servicing of debt obligations. The company's letter of credit has been devolved which has not yet been regularized.

- **Weak profitability**

The operating margins of the company stood weak marked by 0.53 per cent in FY2018 as against negative 1.97 per cent in FY2017. Further, profit after tax margins have stood negative marked by 0.68 per cent in FY2018 as against 2.93 per cent in FY2017. This is majorly due to high interest cost.

• Below average financial risk profile

The financial risk profile is below average marked by moderate net worth, weak debt protection measures and high gearing. The net worth is moderate at Rs.26.38 crore as on 31 March, 2018 as against Rs.28.61 crore as on 31 March, 2017. The gearing of stood at 1.01 times as on March 31, 2018 as against 1.08 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 5.58 times as on 31 March, 2018 as against 5.53 times as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 0.59 times in FY2018 as against negative 1.01 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at negative 0.03 times as on 31 March, 2018 as against 0.14 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 0.78 times in FY2018 as against negative 0.20 times in FY2017.

• Working capital intensive operations

The operations are working capital intensive marked by Gross Current Asset days of 137 and 268 in FY2018 and FY2017 respectively. The high GCA days emanate from high inventory holding of 47 days and collection days of 66 for FY2018. Further the cash credit has been fully utilized for the past 6 months ending May, 2019.

• 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.

Liquidity Position

KSL has stretched liquidity marked by decline in net cash accruals in FY2019. The company generated negative cash accruals of Rs.0.75 crore for the period FY2018 as against Rs.4.31 crore during FY2017. The company has intensive working capital operations as marked by high GCA days of 137 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit of the company remained fully utilised during the last six months period ended May, 2019. The company maintains unencumbered cash and bank balances of Rs.3.37 crore as on March 31, 2018. The current ratio stood at 0.84 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of significant losses registered by the company for the FY2019.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	334.37	189.85	139.33
EBITDA	Rs. Cr.	1.77	(3.75)	6.21
PAT	Rs. Cr.	(2.27)	(5.56)	0.42
EBITDA Margin	(%)	0.53	(1.97)	4.46
PAT Margin	(%)	(0.68)	(2.93)	0.30
ROCE	(%)	1.00	(7.61)	14.33
Total Debt/Tangible Net Worth	Times	1.01	1.08	1.15
PBDIT/Interest	Times	0.59	(1.01)	1.38
Total Debt/PBDIT	Times	13.13	(8.62)	6.06
Gross Current Assets (Days)	Days	137	268	350

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-April-2018	Cash Credit	Long Term	17.00	ACUITE B/ Stable (Reaffirmed)
	Letter of Credit	Short Term	6.00 (Enhanced from Rs.5.00 crore)	ACUITE A4 (Reaffirmed)
20-Mar-2018	Cash Credit	Long Term	17.00	ACUITE B/ Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A4 (Reaffirmed)
09-Feb-2018	Cash Credit	Long Term	17.00	ACUITE B/ Stable (Indicative)
	Letter of Credit	Short Term	5.00	ACUITE A4 (Indicative)

*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	ACUITE D (Downgraded from ACUITE B/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE D (Downgraded from ACUITE A4)

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About Acuité Ratings & Research:

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