

## Press Release

### KG Iron And Steel Castings Private Limited

January 23, 2020

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.10.00 Cr.
<b>Long Term Rating</b>	ACUITE B+/ Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs.10.00 crore bank facilities of KG IRON AND STEEL CASTINGS PRIVATE LIMITED (KGPL). The outlook is '**Stable**'.

Madhya Pradesh based, KGPL was incorporated in 2009. The company is engaged in the manufacturing of iron and steel products such as MS ingots, cast iron mold, leaf springs, hangar shackles etc. The plant is located in Mandideep District, Raisen, Madhya Pradesh and has an installed capacity of 30,000 MT per year, and the average utilization is about 75%.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KGPL to arrive at this rating.

### Key Rating Drivers

#### Strengths

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

KGPL was established in 2009. Mr. Kamlesh Gupta (Director) and Mr. Shibu K.M. (Director) have an experience of about two decades; while Mr. Rahul Gupta (Director) has an experience of about a decade in the aforementioned line of business. The experience of management has helped the company to develop healthy relationships with customers and suppliers.

Acuite believes that the company will continue to benefit from the promoters' established presence in the industry and its improving business risk profile over the medium term.

- **Improvement in working capital operations**

The operations of the company reflect improvement in working capital operations marked by gross current assets (GCA) of 90 days in FY2019 as compared to 160 days in FY2018. This is on account of reduced debtors' collection period of 33 days in FY2019 as against 80 days in FY2018 due to faster payment realization and the company maintains inventory levels of 46 days in FY2019 as compared to 65 days in FY2018. However, the bank limits remain almost fully utilized at ~99.13 percent for the past six months ended December 2019.

Acuite believes that the working capital operations of the firm will continue to remain efficient over the medium term on account of reduced debtor's collection period.

#### Weaknesses

- **Average financial risk profile**

KGPL has average financial risk profile marked by modest net worth, high gearing and average debt protection metrics. The net worth stood at Rs.4.61 crore as on 31 March, 2019 as against Rs.4.11 crore as on 31 March 2018 due to moderate accretion to reserves. The firm has followed an aggressive financial policy in the past, the same is reflected through its gearing levels of 3.03 times as on March 31, 2018. The gearing improved to 2.57 times as on March 31, 2019. The total debt of Rs.11.84 crore as on 31 March, 2019 consists of long term debt of Rs.2.90 crore, unsecured loans of Rs.3.21 crore and working capital requirement of Rs.5.73 crore. Further, the interest coverage ratio stood at 2.97 times for FY2019 as compared to 2.38 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood at 3.99 times as on 31 March, 2019 as against 6.27 times as on 31 March, 2018.

Acuite believes that financial risk profile of the company is likely to remain average over the medium term, on account of high gearing and average debt protection metrics.

• **Susceptible to volatility in raw material prices**

KGPL manufactures MS ingots, cast iron molds etc. and the company has limited bargaining power due to high competitive pressures within the industry. The company on the other hand procures raw materials such as sponge iron, MS scrap and stainless steel through domestic markets, the prices of which have remained volatile in the past. Further, the company has limited flexibility while passing on the raw material price changes to the customers leading to volatile profitability as reflected through operating margins of 1.45 – 4.11 per cent over the last three years.

Acuite believes that the operating margins of the company are likely to remain susceptible to volatility in raw material prices over the medium term.

• **Competitive and fragmented nature of industry**

KGPL operates in a highly competitive and fragmented industry, characterised by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the company.

**Liquidity position: Stretched**

KGPL has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 1.34 crore for FY2019 with debt repayment obligation of Rs. 0.55 crore for the same period. The cash accruals of KGPL are estimated to remain in the range of around Rs. 1.67 crore to Rs. 1.96 crore during 2020-22 against debt repayment obligations in the estimated range of around Rs.0.55 crore per year in the same period. The company's working capital operations are efficient marked by 90 gross current asset (GCA) days for FY2019. The average bank limit utilization for the last six months ended December 2019 remained ~99.13 percent. The company maintains unencumbered cash and bank balances of Rs. 0.12 crore as on 31 March 2019. The current ratio stood at 1.30 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain stretched on account of low cash accrual against debt repayments over the medium term.

**Rating Sensitivities:**

- Substantial improvement in profitability margins
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

**Material Covenants**

None

**Outlook: Stable**

Acuite believes that KGPL will maintain a 'Stable' outlook on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	70.83	54.41
PAT	Rs. Cr.	0.50	0.32
PAT Margin	(%)	0.71	0.58
Total Debt/Tangible Net Worth	Times	2.57	3.03
PBDIT/Interest	Times	2.97	2.38

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

CRISIL, vide its press release dated December 29, 2018 had denoted the rating of KG Iron and Steel Castings Private Limited as 'CRISIL B-/Stable; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Not Applicable

### \*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	7.00	ACUITE B+/ Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B+/ Stable

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### About Acuité Ratings & Research:

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