Press Release

K2 Metals Private Limited

May 13, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' **(read as ACUITE double B minus)** and short-term rating of **'ACUITE A4' (read as ACUITE A four)** on the Rs. 30.00 crore bank facilities of K2 METALS PRIVATE LIMITED (KMPL).

Incorporated in 2009, KMPL is Maharashtra based company engaged in manufacturing of steel wires and galvanized wired in the range of 0.9 mm to 10.00 mm. The company is promoted by Mr. Rahul Kulkarni and Mrs. Megha Kulkarni. KMPL commenced its operations from 2016. The company has its manufacturing unit located in Jejuri MIDC, Pune with installed capacity to manufacture 24,000 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

  The key promoter, Mr. Rahul Kulkarni (Metallurgical Engineer) has been associated with the steel industry for almost two decades. Before promoting KMPL, the promoter has worked with leading steel manufacturing companies gaining experience in global steel industry for almost a decade. Mrs. Megha Kulkarni manages day to day activities of the company. KMPL will continue to benefit from promoters experience as reflected by CAGR of 125.11 percent over last three years of FY2017-2019. Further, the company has its manufacturing facility located at Jejuri, Pune which is considered to be manufacturing hub of Maharashtra, thereby providing location advantages to KMPL.

  Acuité believes that KMPL will continue to benefit over the medium term on the back of the experience of the promoters.

- **Improving scale of operations**

  KMPL was incorporated in 2009, however the operations started in February, 2016. The company has installed capacity of 24,000 MTPA which is being currently being utilized at ~78.00 percent. The company's capacity utilization improved from ~45 percent in FY2018 to ~78 in FY2019. This led to improvement in scale of operations as reflected by operating revenue of Rs. 85.89 crore for FY2019 as against Rs. 49.36 crore for FY2018 and Rs.16.95 crore for FY2017. FY2019 is the breakeven year for the company which indicates stabilization in operations.

  Going forward, Acuité believes that the company will be able to sustain the growth and maintain scalability.

Weaknesses

- **Moderate working capital operations**

  The working capital operations of the company is moderately intensive marked by Gross Current Assets (GCA) of 137 days in FY2019 as against 149 days in FY2018. The firm maintains inventory of around 80 days on an average and extends clean credit of around 60 days to its customers, resulting in high GCA days. Inventory days are usually high to cater to spot orders. The inventory and debtor levels stood at 75 days and 63 days in FY2019 as against 89 days and 57 days in FY2018, respectively. The average bank limit utilization is ~25 percent for six months ended December, 2019.

Acuité believes that the ability of the group to efficiently manage its working capital requirements will remain key rating sensitivity.

- **Susceptible to fluctuations in raw material prices**
The major raw material of the company is mild steel rods. The prices of the same are fluctuating in nature, therefore the operating profit margins of the company is susceptible to raw material price fluctuation. The operating profit of the company stood at 4.43 percent in FY2019 as against 7.08 percent in FY2018 and 12.89 percent in FY2017. The decline in operating margins over the years is on account of limited value addition and the company's lower ability to pass the increased cost to the customers.

- **Presence in highly competitive and fragmented industry**
KMPL operates in the highly competitive steel industry with much pressure on capacity utilization and low bargaining power with the company. Low entry barriers, price fluctuation of raw materials and intense competition creates competition from several organized and unorganized players in the industry.

Rating Sensitivities
- Deterioration in Gross Current Asset (GCA) to 160-200 days.
- Sustained improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.

Material Covenants
None

Liquidity position: Adequate
The company has adequate liquidity marked by its moderate net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 0.75 crore - Rs. 1.7 crore during the last three years through 2017-19; while the maturing debt obligations were in the range of Rs. 1.2 crore over the same period. The cash accruals are estimated to be in the range of Rs. 1.90 crore – Rs. 2.44 crore during 2019-21, while its repayment obligations are expected to be in the range of Rs. 1.75 crore – Rs. 2.36 core over the same period. The company maintains cash and bank balances of Rs. 0.22 crore as on March 31, 2019. The current ratio stood moderate at 1.30 times as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual over the medium term.

Outlook: Stable
Acuité believes that KMPL will maintain a 'Stable' outlook and benefit over the medium term from its experienced management and improvement scale of operations. The outlook may be revised to 'Positive' if the company reports higher than expected revenues and profitability margins while managing its working capital operations efficiently. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and profitability or elongation in the working capital cycle leading to deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	85.89	49.36
PAT	Rs. Cr.	0.40	-0.07
PAT Margin	(%)	0.47	-0.14
Total Debt/Tangible Net Worth	Times	1.18	1.01
PBDIT/Interest	Times	1.81	1.78

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

• Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.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	13.00	ACUITE BB- /Stable
Term Loan	Sept, 2014	Not Applicable	Mar, 2023	6.17	ACUITE BB- /Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.83	ACUITE BB- /Stable

Contacts

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About Acuité Ratings & Research:
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