

Press Release

K2 Metals Private Limited

April 05, 2021

Rating Reaffirmed



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 37.50 Cr. (Enhanced from Rs.30.00 crore) |
| Long Term Rating | ACUITE BB- / Outlook: Stable (Reaffirmed) |
| Short Term Rating | ACUITE A4 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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.37.50 crore bank facilities of K2 Metals Private Limited (KMPL). The outlook is '**Stable**'.

Incorporated in 2009, KMPL is Maharashtra based company engaged in manufacturing of steel wires and galvanized wire in the range of 0.9 mm to 10.00 mm. The company is promoted by Mr. Rahul Kulkarni and Mrs. Megha Kulkarni and KMPL started its operations from 2014. The company has its manufacturing unit located in Jejuri MIDC, Pune with an installed capacity to manufacture 24,000 MTPA.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of KMPL to arrive at the 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. Extensive experience of the promoters has helped the company in maintaining healthy relationship with its customers and suppliers.

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

Weaknesses

• Deterioration in scale of operations and fluctuating profitability

The revenues of the company have deteriorated to Rs.76.14 crore in FY2020 from Rs.85.89 crore in FY2019. This is majorly due to reduction in the selling price. Further, it has registered revenues of around Rs.78.69 crore for the period April, 2020 to February, 2021. The operating profitability though improved in FY2020 to 5.10 percent in FY2020 from 4.43 per cent in FY2019 but it is still lower than the 7.08 per cent in FY2018. Further, the net profitability majorly deteriorated to 0.30 percent in FY2020 from 0.47 in FY2019.

Acuite believes that scale of operations and profitability will remain muted in FY2021 due to covid19 impact which has led to increase in the raw material prices, loss of initial operational period due to nationwide lock down, supply chain and labour issues.

• Moderate Financial risk profile

KMPL's financial risk profile is moderate marked by moderate net worth, high gearing and moderate debt protection measures. The net worth increased to Rs.20.02 crore as on 31 March, 2020 from Rs.19.82 crore in the previous year. The company's gearing stood high at 1.27 times as on 31 March, 2020 as against 1.18 times in the previous year. The total debt of Rs.25.52 crore consists of long term debt of Rs.7.24 crore, unsecured loans of Rs.5.37 crore and short term borrowing of Rs.12.90 crore. The interest coverage ratio marginally deteriorated to 1.45 times in FY2020 from 1.81 times in the

previous year. NCA/TD ratio stood 0.04 times in FY2020 as against 0.07 times in FY2019.

Acuite believes that the financial risk profile will continue to remain moderate on account of increase in long term loan to the tune of Rs.3.25 crore and expected enhancement in short term borrowing by around Rs.7.50 crore.

- **Intensive working capital operations**

The working capital operations of the company is intensive marked by high Gross Current Assets (GCA) of 172 days in FY2020 as against 137 days in FY2019. This is majorly because of increase in inventory days to 107 in FY2020 from 75 in FY2019 due to nationwide lockdown which forced the company to shut down the operations. Debtor days stood at 66 in FY2020 as against 63 in FY2019. The working capital facility is fully utilised on an average for the past 6 months ending February, 2021. Acuite believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity.

- **Susceptible to fluctuations in raw material prices and presence in highly competitive industry**

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.

Also, 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.

Liquidity Position: Stretched

The company has stretched liquidity marked by its moderate net cash accruals as against its maturing debt obligations. The company generated cash accruals of Rs. 0.99 crore to Rs.1.72 crore during the last three years through 2018-20; while the maturing debt obligations were in the range of Rs.1.17 to 2.72 crore over the same period. The cash accruals are estimated to be in the range of Rs.2.68 to 4.77 crore during 2021-23, while its repayment obligations are expected to be in the range of Rs.2.89 to 3.89 crore over the same period. The working capital operations of the company is intensive marked by high Gross Current Assets (GCA) of 172 days in FY2020 as against 137 days in FY2019. The bank limit is fully utilised on an average for the past 6 months ending February, 2021. The company maintains cash and bank balances of Rs.0.05 crore as on March 31, 2020. The current ratio stood moderate at 1.18 times as on March 31, 2020.

Acuite believes that the liquidity of the firm is likely to improve in near to medium at the back of improved scale of operations and net cash accruals.

Outlook: Stable

Acuite 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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant changes in financial risk profile and working capital operations of the company.

Material Covenants

None

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|---------------------------------|-----------|---------------|---------------|
| Operating Income | Rs. Crore | 76.14 | 85.89 |
| Profit after tax (PAT) | Rs. Crore | 0.23 | 0.40 |
| PAT margin | % | 0.30 | 0.47 |
| Total debt / Tangible Net worth | Times | 1.27 | 1.18 |
| PBDIT / Interest | Times | 1.45 | 1.81 |

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|------------------------------|
| 13-May-2020 | Cash Credit | Long Term | 13.00 | ACUITE BB-/Stable (Assigned) |
| | Term Loan | Long Term | 6.17 | ACUITE BB-/Stable (Assigned) |
| | Letter of Credit | Short Term | 10.00 | ACUITE A4 (Assigned) |
| | Proposed Bank Facility | Long Term | 0.83 | ACUITE BB-/Stable (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 | 13.00 | ACUITE BB-/Stable (Reaffirmed) |
| Term Loan | 01-Sept-2014 | 12.75% | 01-Sept-2022 | 4.78 | ACUITE BB-/Stable (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A4 (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 9.72 | ACUITE BB-/Stable (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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