

## Press Release

K2 Metals Private Limited

June 27, 2022



### Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A4   Reaffirmed
Bank Loan Ratings	27.50	ACUITE B   Stable   Downgraded	-
Total Outstanding Quantum (Rs. Cr)	37.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and reaffirmed its 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**'.

#### Rationale for downgrade

The rating downgrade takes into consideration the irregularities observed in the account. Further, the rating downgrade is also reflective of the stretched liquidity, intensive working capital operations of the company along with high dependence on working capital limits. Acuite believes that such pressure on liquidity will continue on account of intensive nature of working capital requirements and slow recovery in the business.

#### About the Company

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 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 business and financial risk profiles of K2 Metals Pvt Ltd (KMPL)

#### 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.

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

### **Stable operating performance**

K2 Metals Pvt Ltd (KMPL) has recorded a stable operating performance. Its revenue stood at Rs.90.21 Cr. in FY2022 as against Rs.90.01 Cr. in FY2021. Such stable performance comes at the back of price hikes in products by the company. The EBITDA margins of the company remained stable at 5.26% in FY2022 as against 5.71% in FY2021. PAT margins also remained stable at 0.23 % in FY2022 against 0.07% in FY2021.

### **Weaknesses**

#### **Intensive working capital operations**

Working capital operations of the company remain intensive marked by GCA days 161 in FY2022 as against 175 days in FY2021. Contraction in GCA days is majorly on account of contraction seen in Debtor collection period. As a policy the company extends a credit period of 30 to 45 days to its customers. The debtor collection period stood at 45 days in FY2022 as against 73 days in FY2021. Inventory holding period stood at 119 days in FY2022 as against 104 days in FY2021. KMPL procures 90% of raw materials for production of the wires from secondary steel producers in Chhattisgarh. The company opens an LC with a duration of 90 days for procuring raw materials. The creditor days of the company stood at 91 days in FY2022 as against 108 days in FY2021.

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

#### **Weak Financial risk profile**

Financial risk profile of the company is weak with a modest tangible net worth, moderate gearing and stretched debt protection metrics. Tangible Networth of the company stood at Rs.20.23 Cr as on 31st March, 2022 as against 20.03 Cr as on 31st March, 2021. Gearing (Debt/Equity) of the company remained high at 1.44 times as on 31st March 2022. as against 1.46 times as on 31st March 2021. Total debt of the company stood at 29.20Cr in FY2022 comprising of Rs.12.94 Cr of long term debt, 2.78 Cr of short term debt and 3.49 Cr of unsecured loans. It is to be noted that the company in September 2021 availed a principal moratorium of two years on its long term loans principal moratorium of one year on GECL loans with UCO bank. Such moratorium is applicable for principal loan repayments from May 2021 to April 2023. As of 31st March 2022 the total long term loans of the company with UCO bank stood at Rs. 4.33 Cr and GECL loans stood at Rs.4.85 Cr. TOL/TNW of the company stood at 2.49 times as on 31st March 2022 as against 2.70 times as on 31st March 2021. Debt protection metrics of the company remained stretched with DSCR below unity at 0.92 times in FY2022 as against 0.81 times in FY2021. Interest coverage ratio stood at 1.59 times in FY2022 as against 1.41 times in FY2022.

Acuité believes that the financial risk profile will moderate in the near to medium term on account of principal moratorium taken on term loans.

#### **Susceptible to fluctuations in raw material prices, thin profitability margins 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 high competitive industry further limits the pricing flexibility and exerts pressures on the margins of all participants. PAT margins stood at 0.23% in FY2022 as against 0.07% in FY2021.

## Rating Sensitivities

Substantial improvement in scale of operation while maintaining profitability margins.  
Elongation in working capital cycle leading to higher reliance on working capital limits

## Material covenants

None

## Liquidity: Stretched

Liquidity of KMPL remains stretched with insufficient net cash accruals of Rs.1.82 Cr in FY2022 as against debt repayment obligations of Rs.2.72 Cr. The bank limit utilisation of the company also remains high at 98.17% for 13 months ended April 2022. KMPL has also availed a principal moratorium of 2 years in its term loans with UCO Bank. In the near term the company is expected to maintain sufficient net cash accruals in the range of Rs.2.80- 3.72 Cr as against debt repayment obligations of Rs.2.00 to 2.72 Cr.

Acuité believes that the liquidity of the company will continue to moderate over the medium term on account of working capital intensive nature of operations and moderate cash accruals with moderate repayments 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	90.21	90.01
PAT	Rs. Cr.	0.20	0.06
PAT Margin	(%)	0.23	0.07
Total Debt/Tangible Net Worth	Times	1.44	1.46
PBDIT/Interest	Times	1.59	1.41

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

Not Applicable

## Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Apr 2021	Cash Credit	Long Term	13.00	ACUITE BB-   Stable (Reaffirmed)
	Term Loan	Long Term	4.78	ACUITE BB-   Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	9.72	ACUITE BB-   Stable (Reaffirmed)
13 May 2020	Proposed Bank Facility	Long Term	0.83	ACUITE BB-   Stable (Assigned)
	Term Loan	Long Term	6.17	ACUITE BB-   Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Assigned)
	Cash Credit	Long Term	13.00	ACUITE BB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE B   Stable   Downgraded
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.42	ACUITE B   Stable   Downgraded
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	4.76	ACUITE B   Stable   Downgraded
UCO Bank	Not Applicable	Term Loan	01-09-2014	12.75	Not available	4.32	ACUITE B   Stable   Downgraded

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### About Acuité Ratings & Research

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