

Press Release

Pulkit Metals Private Limited

April 11, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	42.40	ACUITE A- Stable Assigned	-
Bank Loan Ratings	65.00	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	107.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) and short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs.107.40 Cr bank facilities of PULKIT METALS PRIVATE LIMITED (PMPL; part of Pulkit group). The outlook is '**Stable**'.

The ratings draw strength from group's established market position in Southern India, extensive experience of the promoters in the steel industry, group's established relationships with customers and suppliers and a diversified customer base, favourable revenue mix with higher contribution from value-added products, integrated nature of operations and favourably located plants. The Group's business performance continued to remain healthy in FY2022 with revenues expected to witness a 20-25% YoY growth on the back of favourable operating environment in the steel industry, driven by the Government's thrust on infrastructure projects, higher demand from the end-user industries such as real estate and construction and elevated steel realisations. The ratings are, albeit constrained by the highly commoditised and fragmented nature of the secondary steel industry, resulting in intense competition, margins susceptible to volatility in raw material prices. Additionally, the Group remains exposed to the inherent cyclicity in the steel industry and its key end-user industry. The Group has been regularly incurring debt-funded capital expenditure (capex) towards capacity expansion. The group's ability to ramp up the operations of the expanded capacity remains an important factor.

About Company

Incorporated in 2010, Pulkit Metals Private Limited (PMPL) manufactures thermo-mechanically treated (TMT) bars and M.S Billets; its manufacturing facility is located in Puducherry. PMPL has backwardly integrated into manufacturing mild steel (MS) billets with a capacity of 1, 00,000 metric tons per annum (MTPA) and TMT bars 1, 80,000 metric tons per annum (MTPA). It markets the TMT bars under the brand name, Pulkit TMT.

About the Group

Incorporated in 1997, Pushpit Steels Private Limited (PSPL) engaged in manufacturing of M.S Billets, Sponge Iron and thermo-mechanically treated (TMT) bars. PSPL's manufacturing facility is located in Sri Kalahasti, Chittoor Dt., Andhra Pradesh with a production capacity of manufacturing (MS) billets of 1,80,000 metric tons per annum (MTPA), TMT bars of 1,80,000 metric tons per annum (MTPA) and Sponge Iron of 1,44,000 metric tons per annum (MTPA).

Analytical Approach

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Pushpit Steels Private Limited (PSPL), Pulkit Metals Private Limited (PMPL), together referred to as the 'Pulkit Group or Group. The consolidation is in the view of common management, intercompany holdings, operational linkages between the entities and a similar line of business. Extent of consolidation: Full

Key Rating Drivers

Strengths

Extensive experience of promoters in the steel industry

The Group has an experience of more than three decades in the steel manufacturing and trading business. The key promoter of the group is Mr. Vinod Garg, who has experience of more than three decades in the iron and steel industry, which has helped the company establish relationships with customers and suppliers for repeat orders. The senior management team is ably supported by a strong line of mid-level managers. Over the years of operations, the group has gradually increased its capacities and has increased its integration level. The steel manufacturing facilities of the Group are located in proximity to the sources of key raw materials. Acuité believes that extensive experience of the promoters over 3 decades, their strong understanding of market dynamics, healthy relations with customers and suppliers, positive domestic demand outlook will continue to support the business over the medium term.

Improved business profile supported by integrated nature of operations

The strong business risk profile of the Group is supported by the integrated nature of operations of the Group; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. The diversity in revenue streams of the Group also augurs well. The Group's manufacturing facilities are integrated with manufacturing of sponge iron, Ingots/Billets and TMT Bars. The integration in operations lends to considerable operational efficiency and flexibility of changing the product mix as per market demand. The group has registered revenues of Rs. 1,041.66 Cr in FY2021 as compared to revenues of Rs. 1,064.51 Cr in FY2020; marginally declined on account of Covid-19 impact in Q1FY2021. However, the group has been able to regain the growth trajectory with sales of around Rs. ~1,150 Cr till February 2022 (Provisional). The operating margin of the group rose to 4.85 per cent as on March 31, 2021 from 4.21 per cent in FY2020 due to better realisations despite the decline in the sales volume. The PAT margin of the group increased to 1.12 per cent in FY2021 from 0.81 per cent in FY2020. The Return on Capital Employed (ROCE) of the group stood moderate at 7.99 per cent as on FY2021 as compared to 7.54 per cent as on FY2020. Acuité believes the scale of operation and profitability will continue to improve over medium term backed by rise in capacity utilization and buoyancy in the steel industry.

Moderate financial risk profile

The Group's financial risk profile is moderate, marked by a moderate network, low gearing and above average debt protection metrics. The Group's network is moderate at around Rs. 241.20 Cr as on March 31, 2021 as against Rs. 228.19 Cr as on 31 March, 2020. The network

levels have seen significant improvement over the last three years through FY 2021 on account of equity infusion of Rs.35 by the promoters and accretion to reserves during the same period. The company has followed a moderately aggressive financial policy in the past, the same is reflected through its gearing and total outside liabilities to tangible network (TOL/TNW) levels stood at 0.99 times and 1.31 times as on 31 March, 2021 respectively vis-à-vis 0.89 times and 1.44 times as on 31 March, 2020. The company incurred capex of Rs.84 Cr over the last three years to expand its scale of operations. The debt protection metrics are moderate; marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at 2.69 times and 0.12 times, respectively, in FY2020 as against at 2.52 times and 0.11 times, respectively, in FY2020. Acuité believes that the group's financial risk profile will remain moderate over the medium term

Weaknesses

Working capital intensive nature of operations

The Group's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of 122-128 days during last three years ended 31st March 2021. The inventory days ranged between 62-71 days and debtor's days ranged between 44-55 days during the last three years ended March 31, 2021. To support the working capital, the Group stretches the creditors to an extent of about 27-46 days during the last three years ended March 31, 2021. Its bank limits are utilised at 66 percent during past 9 months through February, 2022. Acuité believes that the operations of the group will remain moderate working capital intensive over the medium term.

Susceptibility to cyclical in the steel industry and end-user industry

The domestic steel sector is characterised by demand cyclical, volatility in raw material and metal prices, high regulatory risk, and the risk of imports. Group operates in the cyclical steel industry thus making it vulnerable to downturns in industry demand, leading to decline in realizations and profitability. Moreover, the bulk of its revenue is derived from cyclical domestic end use industry, the demand depends on the economic growth and consumer sentiments, and thus any decline in demand can also have adverse impact on sales and profitability of group. Demand for steel products depends on the level of construction and infrastructure activities and any movement in economic cycles. Furthermore, the steel industry remains exposed to global steel prices. While the cost-efficient and integrated domestic steel operations of the company partially cushion profitability against cyclical downturns, it shall remain exposed to inherent price and demand volatility in the steel industry. Acuité believes that the domestic consumption growth to continue in FY2022 and FY2023, underpinned by demand growth from construction, real estate, automobiles and consumer durables segments. A high government spending on infrastructure, private sector capex and the availability of credit will support demand growth in the end-user segment.

Susceptibility to fluctuations in raw material prices or changes in government regulations

The Group's operating profitability remained volatile at 4.20%-4.85% for the three years ended March 31, 2021, as it is susceptible to fluctuations in raw material prices. The sector participants typically have high operating and financial leverage, large working capital requirements, and large-sized debt capital funding of the capex. Domestic steel producers are substantially dependent on imports of coking coal, and hence, any supply-side issue could have a material impact on utilisations and profitability. In addition, the metal prices are heavily dependent on international prices, as the domestic market is open for imports.. China has been a key exporter in international market and accounts for about 50% of the global production. Hence, any changes in its economic policies that could impact infrastructure spending or easing of environmental norms can materially impact the metal prices. Acuité believes that increasing scale would result in better absorption and result in higher margins which would remain key rating monitorable.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

Significant improvement in scale of operations while maintaining profitability margins
Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile
Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Material Covenants

None

Liquidity Position: Adequate

Group has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.21 to 28 Cr during the last three years through 2019-21, while its maturing debt obligations were in the range of Rs.8-12 Cr over the same period. The cash accruals of the group are estimated to remain around Rs.29-34 Cr during 2022-24 while its repayment obligation are estimated to be around Rs. 10-13 Cr during the same period. The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 121 in FY 2021. This has led to moderate reliance on its working capital borrowings, the working capital limit of the group remains utilized at 66 percent during the last 9 months period ended February 2022. The group maintains unencumbered cash and bank balances of Rs.15.30 Cr as on March 31, 2021. The current ratio of the group stand at 1.38 times as on March 31, 2021. The group is likely to incur regular capex of Rs.5-7 Cr yearly. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accrual and no major large debt capex plans over the medium term.

Outlook: Stable

Acuite believes that Group will continue to benefit over the medium term due to its established player in the steel industry with an integrated nature of operations, established relations with its customers and suppliers, healthy financial risk profile, . The outlook may be revised to "Positive", if the group demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if group generates lower-than-anticipated cash accruals most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex or any significant investments in group entities.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1041.66	1064.51
PAT	Rs. Cr.	11.69	8.60
PAT Margin	(%)	1.12	0.81
Total Debt/Tangible Net Worth	Times	0.99	0.89
PBDIT/Interest	Times	2.69	2.52

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

Pulkit Metals Private Limited and Pushpit Steels Private Limited had not cooperated with Brickwork Ratings India Pvt Ltd (Brickworks) which have classified it as non-cooperative vide release dated January 12, 2022. The reason provided by Brickworks is non-furnishing of information for monitoring of ratings.

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- Stable Assigned
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	4.51	ACUITE A- Stable Assigned
Kotak Mahindra Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.89	ACUITE A- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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