

Press Release

Pulkit Metals Private Limited

May 16, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE A- Stable Assigned	-
Bank Loan Ratings	35.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	38.00	-	ACUITE A2+ Assigned
Bank Loan Ratings	72.40	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	155.40	-	-

Rating Rationale

Acuite has reaffirmed 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**) on the Rs.107.40 Cr bank facilities of PULKIT METALS PRIVATE LIMITED (PMPL; part of Pushpit group).

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**) on the Rs. 48.00 Cr bank facilities of Pulkit Metals Private Limited (PMPL; part of Pushpit group).

The outlook is '**Stable**'.

Rating for rationale reaffirmation

The rating considers the stable operating, and financial performance of Pushpit group marked by the improvement in operating revenue, operating margins, and healthy financial risk profile. The revenue improved from Rs.1042.67 Cr in FY2021 to Rs.1360.17 Cr in FY2022 as a result of operationalisation of TMT plant in PSPL in January 2022. The growth in revenues was also supported by healthy growth in orders and better price realisation. Further, the group has recorded operating revenues of Rs. 1972 Cr till March 2023. Currently, the group is doing capex for backward integration by expanding its current billet capacity from 1.8 lakhs MTPA to 2.9 lakhs MTPA in PSPL.

Going ahead, the group's ability to ramp up the operations of the expanded capacity on time would remain a key monitorable. However, the above strengths of the group are partly offset by the low operating margins, high debt/EBITDA level, and highly commoditised and fragmented nature of the secondary steel industry - resulting in intense competition, and margins susceptible to volatility in the raw material prices. Additionally, the group remains exposed to the inherent cyclicity in the steel industry and its key end-user industry.

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

Pushpit group(PG) consists of two companies namely Pushpit steel private limited(PSPL) and Pulkit metals private limited(PMPL). PSPL was incorporated in 1997 with a manufacturing plant located at Srikalahasthi, Chittor district in Andhra Pradesh. Pulkit Metals private limited(PMPL) was incorporated in 2010 with a manufacturing plant located at Pondicherry. Both the companies are engaged in manufacturing of M.S Billets, Sponge Iron and thermomechanically treated (TMT) bars.

Analytical Approach

Extent of Consolidation

- Full Consolidation

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 'Pushpit 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. The key promoter of the group is Mr. Vinod Garg, who possess experience of more than three decades in the iron and steel industry. The extensive experience of the promoter has helped the company in establishing long term relationships with its customers and suppliers for repeat orders. The senior management team is ably supported by a strong line of mid-level managers who have extensive experience in their respective fields. Over the years of operations, the group has gradually increased its capacities and has increased its integration level benefiting their day to day operations. 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 with strong understanding of market dynamics, healthy relations with customers and suppliers, positive domestic demand outlook will continue to benefit the business profile of the group 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 enhancing the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. 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 revenue from operations of the group has improved from Rs.1042.67 Cr in FY2021 as compared to revenues of Rs.1, 361.17 Cr in FY2022. The revenues of the group further improved to Rs.1972 Cr in FY2023 (Provisional). However, the operating profit margin of the group deteriorated marginally from 4.85 percent in FY2021 to 4.75 percent in FY2022 on account of increase in raw material prices. On the other hand, the PAT margins improved from 1.12 percent in FY2021 to 1.32 percent in FY2022 and ROCE improved from 7.98 percent in FY2021 to 8.48 percent in FY2022.

Acuité believes the revenue from operations of the group will continue to improve over medium term backed by backward integration, rise in capacity utilization and buoyancy in the steel industry.

Healthy financial risk profile

The Group's financial risk profile is healthy marked by a healthy net worth, low gearing and comfortable debt protection metrics. The Group's net worth improved to Rs.292.22 Cr as on March 31, 2022 as against Rs. 241.20 Cr as on 31 March, 2021 on account of accretion of profits to reserves during the same period. The gearing level of the group deteriorate and remain moderate at 1.07 times as on 31 March 2022 compared against 0.99 times same period last year. The deterioration is majorly on account of increase in outstanding debt levels of the group. Furthermore, the total outside liabilities to tangible net worth (TOL/TNW) stood at 1.38 times as on 31 March, 2022 respectively vis-à-vis 1.32 times as on 31 March, 2021. The debt protection metrics remain comfortable marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at 3.03 times and 0.12 times, respectively, in FY2022 as against at 2.69 times and 0.12 times, respectively, in FY2021. Also, the debt service coverage ratio of 1.93 times for FY2022 compared to 1.59 times for FY2021.

Acuité believes that the group's financial risk profile will remain healthy on account of no major debt funded capex 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 110-125 days during last three years ended 31st March 2022. The inventory days ranged between 64-71 days and debtor's days ranged between 41-55 days during the last three years ended March 31, 2022. To support the working capital, the group stretches the creditors to an extent of about 23-46 days during the last three years ended March 31, 2022. Its bank limits are utilised at 72 percent during past 12 months through January, 2023.

Acuité believes that the working capital management of the group for the operations will remain a key rating sensitivity going ahead.

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 FY2024 and FY2025, 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 4.21 percent-4.85 percent for the three years ended March 31, 2022, 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.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any deterioration in DEBT/EBITDA and debt protection metrics
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Material Covenants

None

Liquidity Position:

Adequate

The liquidity position of the Group remains adequate marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.23 to 37 Cr during the last three years through 2020-22, 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. 8.9-12.88 Cr during the same period. The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 110 in FY 2022 as against 124 days in FY2021. This has led to moderate reliance on its working capital borrowings, the working capital limit of the group remains utilized at 72 percent during the last 12 months period ended January 2023. The group maintains unencumbered cash and bank balances of Rs.0.92 Cr as on March 31, 2022. The current ratio of the group stands at 1.34 times as on March 31, 2022.

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

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1360.17	1042.67
PAT	Rs. Cr.	17.98	11.69
PAT Margin	(%)	1.32	1.12
Total Debt/Tangible Net Worth	Times	1.07	0.99
PBDIT/Interest	Times	3.03	2.69

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

Brickworks vide its press release dated 17.1.2023, had downgraded the company to BWR BB-/Sfable/ A4; Issuer Not Cooperating.

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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Apr 2022	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	15.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Assigned)
	Working Capital Term Loan	Long Term	2.89	ACUITE A- Stable (Assigned)
	Working Capital Term Loan	Long Term	4.51	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	50.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	55.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A2+ Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.80	ACUITE A2+ Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.40	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A2+ Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.20	ACUITE A2+ Assigned

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

1. Pushpit steel private limited
2. Pulkit metals private limited

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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