Press Release
Pulkit Metals Private Limited
July 04, 2024
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.00	ACUITE A- | Stable | Assigned	-
Bank Loan Ratings	45.00	ACUITE A- | Stable | Reaffirmed	-
Bank Loan Ratings	39.00	-	ACUITE A2+ | Assigned
Bank Loan Ratings	110.40	-	ACUITE A2+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	195.40	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating to '**ACUITE A-' (read as ACUITE A minus)** and short-term rating to **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.155.40 Cr. bank facilities of Pulkit Metals Private limited (PMPL). The outlook is '**Stable**'.
Acuite also assigned the 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 Rs.40 Cr. bank facilities of Pulkit Metals Private limited (PMPL). The outlook is '**Stable**'.

Rationale for the rating
The rating reaffirmation takes into account a stable improvement in the operational and financial performance of the Pushpit group, marked by an improvement in operating revenue. The group's revenue increased to Rs. 1870.22 crore in FY2023 from Rs. 1360.17 crore in FY22. The group is expected to register revenue of Rs. 1987.51 crore in FY24 (estimation). The ratings also considered the completion of capex in PSPL for increasing the billet and TMT capacity to 3 lakh MTPA, which is expected to further improve the scale of operations. The operating margins of the group declined marginally in FY23 to 4.49 percent, as against 4.79 percent in FY22. The group is estimated to register an operating margin of 5.56 percent in FY24 (E). Operating margins declined in FY23 due to an increase in raw material prices during the period; however, margins are estimated to improve to around 5.56 percent in FY24 due to economies in scale of operations backed by an increase in overall capacity. PG's debt/EBITDA level stood at 5.31 times as of March 31st, 2023, which is estimated to moderate to 4.06 times as of March 31st, 2024 (estimations) due to improvements in operating margins. The debt/EBITDA level is expected to improve further going forward due to the repayment of debt and improvements in operating profits backed by the increased capacity. However, the rating is constrained by moderate operating margins, a high level of debt/equity in FY23 and FY24 (estimations), the highly commoditized 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 cyclicality in the steel industry and its key end-user industry.

About the 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 1,25,000 metric tons per annum (MTPA) and TMT bars 1, 25,000 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 steels 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.

Unsupported Rating
Not applicable

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.

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 possesses experience spanning more than three decades in the iron and steel industry. The extensive experience of the promoter has helped the company establish 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 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 the extensive experience of the promoters with a strong understanding of market dynamics, healthy relations with customers and suppliers, and a positive domestic demand outlook will continue to benefit the business profile of the group over the medium term.

Improved business risk profile supported by integrated nature of operations
The strong business risk profile of the group is supported by the integrated nature of operations, which enhances operating efficiencies and mitigates the risks arising from the cyclical nature of the steel industry to some extent. The group's manufacturing facilities are integrated with the manufacturing of sponge iron, ingots and billets, and TMT bars. The integration in operations lends to considerable operational efficiency and flexibility in changing the product mix as per market demand. The revenue from operations of the group has improved from Rs. 1870.22 crore in FY2023 as compared to revenues of Rs. 1,360.17 crore in FY2022. The group is estimated to register revenue of Rs. 1987.51 crore in FY2024 (estimation). However, the operating profit margin of the group deteriorated marginally from 4.79 percent in FY2022 to 4.49 percent in FY2023 on account of an increase in raw material prices. The group is estimated to register operating margins of around 5.56 percent in FY24, backed by economies of scale of operations due to increased capacity. Acuité believes the revenue

from operations of the group will continue to improve over the medium term, backed by backward integration, a 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. 341.03 crore as of March 31, 2023, as against Rs. 292.22 crore as of March 31, 2022, on account of the accretion of profits to reserves during the same period. The gearing level of the group deteriorated and stood at 1.33 times as of March 31st, 2023, compared to 1.07 times as of March 31st, 2022. The deterioration is primarily on account of additional debt available for capex in PSPL. Furthermore, the total outside liabilities to tangible net worth (TOL/TNW) stood at 1.65 times as of March 31, 2023, respectively, vis-à-vis 1.38 times as of March 31, 2022. The debt protection metrics remain comfortable, marked by the interest coverage ratio and net cash accruals to total debt (NCA/TD) at 3.69 times and 0.12 times, respectively, in FY2023 as against 3.05 times and 0.12 times, respectively, in FY2022. Also, the debt service coverage ratio was 2.09 times for FY2023 compared to 1.93 times for FY2022. 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

Moderate intensive nature of working capital operations
The Group's operations are moderately working capital intensive in nature, as reflected by its gross current asset (GCA) days of 110–125 during the last three years ended March 31, 2023. The inventory days ranged between 64 to 71 days, and the debtor's days ranged between 41 to 44 days during the last three years ended March 31, 2023. To support the working capital, the group stretches the creditors to an extent of about 21–27 days during the last three years ended March 31, 2022. Its bank limits are moderately utilized at 72 percent during the past 12 months through April 2024. Acuité believes that the working capital management of the group for operations will remain a key rating sensitivity going forward.

Susceptibility to cyclicality in the steel industry and end-user industry
The domestic steel sector is characterized by demand cyclicality, 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 a decline in realizations and profitability. Moreover, the bulk of its revenue is derived from the cyclical domestic end-use industry; demand depends on economic growth and consumer sentiments, and thus any decline in demand can also have an adverse impact on sales and profitability for the 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 will remain exposed to inherent price and demand volatility in the steel industry. Acuité believes that domestic consumption growth will continue in FY2024 and FY2025, underpinned by demand growth from construction, real estate, automobiles, and consumer durables segments. 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 range-bound between 4.49 percent and 4.85 percent for the three years ended March 31, 2023, 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 from 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 utilization and profitability. In addition metal prices are heavily dependent on international prices, as the domestic market is open for imports. China has been a key exporter in the international market and accounts

for about 50% of global production. Hence, any changes in its economic policies that could impact infrastructure spending or the easing of environmental norms can materially impact metal prices. Acuité believes that increasing scale would result in better absorption and 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.

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 52 Cr. during the last three years through 2021-23, while its maturing debt obligations were in the range of Rs. 8 to 18 Cr. over the same period. The cash accruals of the group are estimated to be around Rs. 76–97 crore during 2024–26, while its repayment obligations are estimated to be around Rs. 26–27 crore during the same period. The group's operations are moderately working capital intensive, as marked by gross current asset (GCA) days in the range of 108 to 126 days over the last 3 years ending March 31st, 2023. This has led to a moderate reliance on working capital borrowings; the average working utilization of working capital limits in PMPL stood at 57%, whereas that of PSPL stood at 63% during the last 12 months ending April 2024. The current ratio of the group stands at 1.34 times as of March 31, 2023 and March 31, 2022. The group has an unencumbered cash and bank balance of Rs. 1.45 crore as of March 31, 2023. 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

Acuité believes that group will maintain a 'Stable' outlook over the medium term as it is a 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1870.22	1360.17
PAT	Rs. Cr.	28.47	17.98
PAT Margin	(%)	1.52	1.32
Total Debt/Tangible Net Worth	Times	1.60	1.07
PBDIT/Interest	Times	3.69	3.05

Status of non-cooperation with previous CRA (if applicable)
Not applicable

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

Note on Complexity Levels of the Rated Instrument
In order to inform the investors about complexity of instruments, Acuité 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
16 May 2023	Cash Credit	Long Term	5.00	ACUITE A- | Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- | Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- | Stable (Assigned)
	Letter of Credit	Short Term	55.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	25.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	9.80	ACUITE A2+ (Assigned)
	Proposed Short Term Bank Facility	Short Term	3.00	ACUITE A2+ (Assigned)
	Proposed Short Term Bank Facility	Short Term	0.20	ACUITE A2+ (Assigned)
	Proposed Short Term Bank Facility	Short Term	17.00	ACUITE A2+ (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	0.40	ACUITE A2+ (Reaffirmed)
11 Apr 2022	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Working Capital Term Loan	Long Term	4.51	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE A- | Stable (Assigned)
	Working Capital Term Loan	Long Term	2.89	ACUITE A- | Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	50.00	ACUITE A2+ (Assigned)
	Bank Guarantee (BLR)	Short Term	10.00	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
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A- | Stable | Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE A- | Stable | Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A- | Stable | Reaffirmed
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.00	ACUITE A- | Stable | Assigned
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.80	ACUITE A2+ | Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	80.00	ACUITE A2+ | Reaffirmed
Axis Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.00	ACUITE A2+ | Assigned
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.40	ACUITE A2+ | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE A2+ | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.20	ACUITE A2+ | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	17.00	ACUITE A2+ | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE A2+ | Assigned

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

Sr.No.	Company Name
1	Pulkit Metals Private limited

2	Pushpit Steels Private limited

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022–49294017 mohit.jain@acuite.in Gnanreddy Rakesh Reddy Senior Analyst-Rating Operations Tel: 022-49294065 rakesh.reddy@acuite.in	Varsha Bist Associate Vice President-Rating Administration Tel: 022-49294011 rating.desk@acuite.in

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.