Kalimati Steel Private Limited

Rating

ICRA has assigned an [ICRA]BB (pronounced ICRA double B) rating to the Rs. 7.88 crore[1] term loan and Rs. 1.00 crore cash credit facilities of Kalimati Steel Private Limited (KSPL)[2]. The outlook on the long term rating is stable. ICRA has also assigned an [ICRA]A4 (pronounced ICRA A four) rating to the Rs. 1.15 crore non-fund based bank limits of KSPL.

Key Financial Indicators

	2008-09	2009-10	2010-11
	Audited	**Audited**	**Provisional**
Net Sales	5.22	6.17	4.43
Operating Income (OI)	5.28	6.28	4.53
OPBDIT	2.00	1.60	1.76
Profit After Tax (PAT)	-0.01	-0.10	0.21
Net Cash Accruals (NCA)	0.82	0.73	1.04
Total Debt	6.07	3.47	3.07
Tangible Net worth	8.21	8.16	12.49
OPBDIT/OI	37.84%	25.42%	38.92%
PAT/OI	-0.12%	-1.60%	4.74%
PBIT/Average (TD+TNW+DTL)	7.72%	5.91%	7.95%
Total Gearing	0.74	0.43	0.25
OPBDIT/ Interest & Finance Charges	2.26	2.69	3.46
(GCF+ Interest)/ Interest	2.45	6.29	1.70
NCA/Total Debt	13.50%	20.94%	33.98%
Total Debt/OPBDITA	3.04	2.17	1.74
Debtor days	41	23	22
Inventory days	15	14	16
Creditor days	150	171	94

Note: Amounts in Rs. Crore; OI: Operating Income; OPBDIT: Operating Profit before Depreciation, Interest and Tax; PAT: Profit after Tax; PBIT: Profit before Interest and Tax; TD: Total Debt; TNW: Tangible Net Worth; DTL: Deferred Tax Liability; GCF: Gross Cash Flows; NCA: Net Cash Accruals

Website
www.icra.in

[1] *100 lakh = 1 crore = 10 million*
[2] *For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key Rating Considerations

Credit Strengths

- Long experience of the promoters in coal trading and coke manufacturing business.
- Conservative capital structure and comfortable coverage indicators.
- Protection against the volatility in coking coal and coke prices, since KSPL acts as a conversion agent of TML
- Advanced stage of the maintenance work of one of the coke batteries is expected to have a positive effect on the company's operations going forward.
- Mechanised operations using the pusher and quenching technology

Credit Challenges

- Small scale of current operations with low turnover and nominal profits and cash accruals.
- High dependence on a single client, viz. Tata Metaliks Limited (TML), exposes the company to client concentration risks; however the long and established relationship mitigates the risk to a certain extent.
- Weak bargaining power against the single customer that is likely to limit the scope of margin expansion in future
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Rating Rationale

The ratings factor in the experience of the promoters in the coal trading and coke manufacturing business, KSPL's mechanised operations using the pusher and quenching technology, its established relationship with Tata Metaliks Limited (TML) and its conservative capital structure and comfortable coverage indicators. KSPL being a conversion agent of TML is insulated from the volatility in coking coal and coke prices and also benefits from a low working capital requirement. The ratings also take into account the advanced stage of maintenance work of one of the coke oven batteries of the company, which is expected to have a positive effect on the company's operations going forward. The ratings are, however, constrained by KSPL's small scale of current operations leading to a low turnover and nominal profits and cash accruals, a high dependence on a single client and the weak bargaining power of the company against TML, which is likely to keep its profits under check. The ratings also take into consideration the low operating flexibility of KSPL as it functions as a exclusive producer of coke for TML.

KSPL functions as a conversion agent for TML, manufacturing coke from coking coal supplied by TML. The company's operations are mechanized, using the pusher and quenching technology. As the entire raw material requirement is supplied by TML, KSPL is insulated from the volatility in the raw material prices. TML enters into long term agreements with KSPL, which was renewed last for a period of 35 months in July, 2011. The coking coal supplied by TML is assessed by a third party deputed at KSPL's plant by TML. The produced coke is also assessed to determine whether physical and chemical properties are within allowable limits. ICRA notes that KSPL's dependence on TML reduces the company's bargaining power, which has resulted in a limited increase in the conversion charges over the last few years.

KSPL has an installed capacity to manufacture 84,000 MT of coke per annum under two batteries of 24 ovens each. However, since April 2010, KSPL has been operating at 50% of its installed capacity, as one of the units has been shut down since it was being revamped. The estimated capital outlay for the overhauling is around Rs 9 crore, proposed to be part funded by a term loan of Rs 6 crore and the balance by an equity infusion by the promoters. The total cost incurred towards the work till June 2011 stood at around Rs 5.19 crore. The overhauled facility is scheduled to be operational shortly, following which the company's overall capacity utlisation is likely to improve.

KSPL's operating income has declined in 2010-11, as one of the batteries was being revamped. The operating margin in 2009-10 had declined significantly over the same in 2008-09, as TML had placed a quality claim of around Rs. 2 crore on KSPL, which led to a loss during the year. Although the operating margin of the company improved to around 39% in 2010-11, reflecting the contract manufacturing nature of the business, profits remained low at an absolute level, standing at around Rs 0.21 crore in 2010-11. The capital structure of the company has improved over the last few years, with the gearing standing at 0.25 time as on 31st March, 2011. This also led to comfortable level of coverage indicators as reflected by OPBDITA / Interest & Finance Charges of 3.46 time and Net Cash Accruals / Total Debt of 34% during 2010-11.

Company Profile

Incorporated in 2004, KSPL is engaged in the manufacture of Low Ash Metallurgical (LAM) coke on a conversion basis for Tata Metaliks Limited. The company's plant is located at Kharagpur in West Bengal. The company has a total capacity of 84,000 MT per annum.

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Recent Results

The company reported a net profit of Rs. 0.21 crore (provisional) in 2010-11 on an operating income of Rs. 4.53 crore (provisional), as compared to a net loss of Rs 0.10 crore on an operating income of Rs. 6.28 crore during 2009-10.

July 2011

Annexure I: Rating History

Instrument	Amount Rated	Amount Outstanding (as on 31st March, 2011)	Rating
	(in Rs. crore)	(in Rs. crore)	As in July 2011
Term Loan	7.88	2.93	[ICRA]BB(Stable)
Fund Based Limit- Cash Credit	1.00	0.12	[ICRA]BB(Stable)
Non Fund Based Limit- Bank Guarantee	1.15	NA	[ICRA]A4