

Press Release

Laxmi Steels (LS)

January 11, 2018



Rating Assigned

Total Bank Facilities Rated	Rs. 7.00crore
Long Term Rating	SMERA BBB-/Stable (Assigned)

* Refer Annexure for details

SMERA has assigned the long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) on the above bank facilities of Laxmi Steels (LS). The outlook is '**Stable**'.

Laxmi Steels (LS), established as a proprietorship firm in the year 1996 by, Mr. Ashok Patel is engaged in trading of steel products and non- ferrous metals. The firm sells to various steel companies, wholesalers and traders located mainly in Bhopal, Madhya Pradesh.

List of key rating drivers and their detailed description:

Strengths

Established operational track record and Experienced management: LS is engaged in trading of steel, steel products and non- ferrous metals since 1996 establishing long track record of operations in the similar line of business. The firm is promoted by Mr. Ashok Patel, the proprietor and Mr. Preetam Patel having experience of around 02 decades in the trading business.

SMERA believes that LS will continue to benefit from its established position in the market and experienced management.

Healthy Financials risk profile: The healthy financial risk profile of the company is marked by infusion of networth stood at Rs. 15.32 crore as on March 31, 2017 as against Rs. 6.92 crore, the networth includes interest bearing loan to the tune of Rs.3.00 crore which are subordinated to bank debt. The gearing remains comfortable at 0.27 times as on March 31, 2017 as against 0.34 times as on March 31, 2016. The total debt of Rs.4.16 crore mainly consists of working capital limit of Rs.4.16. Moreover there are no long term debt borrowings from banks or financial institution as on March 31, 2017.

Debt protection metrics remained moderate as interest coverage ratio (ICR) stood at 2.41 times for FY2017 as against 1.94 times in previous year. TOL/TNW stood comfortable at 0.69 times as on 31st March, 2017 as compared to 1.49 times in the previous year.

Going forward gearing is expected to remain comfortable in the medium term on account of absence of external borrowings.

Healthy Profitability: The firm reported healthy operating margin of 3.46 percent for FY 2017 and 3.92 percent in FY 2016. However the margins decline was on account of increase in raw material

prices. Moreover, LS reported Profit after tax (PAT) margin of 1.87 percent for FY 2017 as against 1.64 percent in the previous year.

Moderate working capital cycle: LS working capital cycle has been moderate at 57 days in FY2016-17 as against 67 days in FY2015-16. However the GCA days stood at 204 days in FY2016-17 from 187 days in FY2015-16 mainly on account of elongated debtor days of 111 and composition of other current assets mainly consist of advance to suppliers of 4.82 crore and cash bank of Rs.3.02 crores. Moreover the average cash credit utilisation has been ~50 to 60 per cent a confirmed by banker.

Weakness

Uneven revenue trend: The revenue has been uneven during the period under study. The firm revenue stood at Rs.45.67 crore for FY 2017 as against Rs. 32.63 crore for FY 2016 and Rs.47.58 crore for FY2015. The decline in revenue is mainly on account of decline in prices and sluggish demand in the market. However the firm has registered revenue of Rs. 38 crore for the period of April to December 17. Further it is having an order book of Rs.8.00 crore which would be executed in current and by Feb 2018.

Susceptibility to volatility in raw material prices: The firm purchase steel, steel products and other scrap hence the prices of these commodities are highly volatile in nature. Hence the margins of the company are susceptibility to volatility in raw material prices on account of its inability to pass on the increase in the price to its customers.

However, the risk is mitigated to an extent as the procurement is done only once the orders have been received from the customers. Moreover the low profit margins are primarily due to trading nature of operations.

Highly competitive industry: LS operate in a highly competitive steel products industry with much pressure on capacity utilisation and pricing power. The steel industry is cyclical in nature and so are end user industries like real estate and construction. Besides, LS faces competition from other reputed brands in the industry.

Capital withdrawal risk: Being a proprietorship concern, LS is exposed to the risk of capital withdrawal. However, no such instances have been observed during the period under study.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	45.67	32.63	47.58
EBITDA	Rs. Cr.	1.58	1.28	1.42
PAT	Rs. Cr.	0.85	0.53	0.80
EBITDA Margin	(%)	3.46	3.91	2.99
PAT Margin	(%)	1.87	1.64	1.68
ROCE	(%)	10.49	14.77	40.50
Total Debt/Tangible Net Worth	Times	0.27	0.34	0.12
PBDIT/Interest	Times	2.41	1.94	2.49
Total Debt/PBDIT	Times	2.66	1.83	0.50
Gross Current Assets (Days)	Days	204	187	116

Applicable Criteria

- Trading Entity: <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years: None

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	7.00*	SMERA BBB-/ Stable (Assigned)

Includes sublimit Overdraft against Book debts (ODBD) of Rs.5.00 crore.

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