

Press Release

Laxmi Steels

April 27, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 7.00 crore bank facilities of Laxmi Steels (LS). The outlook is '**Stable**'.

The rating downgrade is in view of deterioration in operating performance resulting in subdued debt coverage indicators and elongation in working capital cycle.

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

Analytical Approach

For arriving at the rating, Acuite has considered the standalone business and financial risk profile of LS.

Key Rating Drivers

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 similar line of business. The firm is promoted by Mr. Ashok Patel, the proprietor and Mr. Preetam Patel having experience of around two decades in the trading business.

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

Moderate working capital cycle:

LS's working capital cycle has been moderate marked by working capital cycle of 64 days in FY2018 and 57 days in FY2017. However Gross Current Asset (GCA) stood high at 202 days in FY2018 compared to 204 days in FY2017. The GCA days are mainly dominated by high debtor days of 92 days in FY2018 and other current assets. The average cash credit utilization for the past six months stood at ~60 percent.

Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Weaknesses

Susceptibility to volatility in raw material prices:

The firm purchases steel, steel products and other scrap; hence, the prices of these commodities are highly volatile in nature. Thus, the margins of the firm are susceptible 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 operates 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 such as 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.

Liquidity Position

LS has average liquidity profile, net cash accruals stood below Rs. 1.00 crore for the period under study, further the firm had no long term debt obligations during FY2016-18. The cash accruals are estimated to remain between below Rs.1.00 crore over the near to medium term, while repayment obligations are estimated to be NIL over the medium term, as the firm is not expected to undertake debt funded capital expenditure over the near to medium term. The working capital operations are intensive marked by Gross Current Asset (GCA) days of 202 in FY2018. The firm had unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2018. The current ratio of the firm stood at 2.51 times as on March 31, 2018. Acuite believes that the liquidity of the firm is likely to remain average over the medium term on account of below average cash flows from operations and working capital intensive operations over the medium term.

Outlook: Stable

Acuite believes that LS will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	48.49	45.67	32.63
EBITDA	Rs. Cr.	1.34	1.58	1.28
PAT	Rs. Cr.	0.56	0.85	0.53
EBITDA Margin	(%)	2.77	3.46	3.91
PAT Margin	(%)	1.15	1.87	1.64
ROCE	(%)	6.15	10.49	14.77
Total Debt/Tangible Net Worth	Times	0.44	0.27	0.34
PBDIT/Interest	Times	1.80	2.41	1.94
Total Debt/PBDIT	Times	5.23	2.66	1.83
Gross Current Assets (Days)	Days	202	204	187

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

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Jan-2018	Cash Credit	Long Term	7.00	ACUITE BBB-/ Stable (Assigned)
28-Mar-2019	Cash Credit	Long Term	7.00	ACUITE BBB- (Indicative)

CC includes sublimit Overdraft against book debts (ODBD) of Rs. 5.00 crore

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)

CC includes sublimit Overdraft against book debts (ODBD) of Rs. 5.00 crore

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-49294071 vinayak.nayak@acuite.in Salome Farren Analyst - Rating Operations Tel: 02249294062 salome.farren@acuiteinratings.in	Varsha Bist Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in

About Acuité Ratings & Research:

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