

## Press Release

### LN Metallics Limited (LNML)

01 November, 2019

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 15.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB-/Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A3 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.15.00 crore of bank facilities of LN Metallics Limited (LNML). The outlook is '**Stable**'.

L N Metallics Limited (LNML) was incorporated in 2003 by Mr. Ramesh Agrawal & Mr. Girdharilal Agrawal. The company is engaged in manufacturing of sponge iron with an installed capacity of 42000 MTPA. They have manufacturing facility located at Jharsuguda, Orissa.

P D Industries Private Limited (PDIPL) was incorporated in 1992 by Agarwal family and taken over by the promoters of LN group in 2015. The company is engaged in manufacturing of sponge iron with installed capacity of 60000 MTPA. The manufacturing facility located at Raipur, Chhattisgarh.

### **Analytical Approach:**

Acuité has consolidated the business and financial risk profiles of L N Metallics Limited with P D Industries Private Limited herein referred to as L N Group. The consolidation is in view of common management, similar line of business and significant financial linkages.

### **Key Rating Drivers:**

#### **Strengths**

#### **Experienced management and long track record of operation**

LN group has an established market presence since 2003 and the director of the group Mr. Girdharilal Agrawal, Mr. Nitish Kumar Agrawal and Mr. Abhishek Agrawal has about 15 years of experience in iron and steel industry. This has helped the group to create healthy relation with its suppliers and customers over the years.

#### **Healthy financial risk profile**

The healthy financial risk profile of the group is marked by moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth of the group stands healthy at Rs.57.91 crore in FY2019 as compared to Rs.46.43 crore in FY2018. This improvement in Networth is mainly due to retention of current year profit. The gearing of the group stands comfortable at 0.35 times as on March 31, 2019 (Prov.) when compared to 0.23 times as on March 31, 2018. The total debt of Rs.20.35 crore in FY2019 consists of long term loan of Rs.11.50 crore, short term loan of Rs.7.54 crore and unsecured loan for promoters of Rs.1.31 crore. Interest coverage ratio (ICR) is strong and stands at 9.37 times in FY2019 as against 2.33 times in FY 2018. The debt service coverage ratio also stands comfortable at 7.73 times in FY2019 as against 2.12 times in FY2018.

#### **Coal linkages with SECL & MCL:**

One of the primary raw materials in the manufacture of sponge iron is coal. The group has linkage with South Eastern Coalfields limited (SECL) and Mahanadi Coalfield Limited (MCL) for supply of 80-90 per cent of total annual coal requirement. The linkages ensure steady and regular availability of coal.

## Weaknesses

### Moderate profitability

The profitability margin of the group has improved and stands moderate at 5.15 per cent in FY2019 as compared to 4.41 per cent in previous year. This improvement in margin is pertaining mainly on account of decrease in raw material cost. Going forward Acuité believes the margin of the company will further improve based on the newly installed captive power plant of 5MW. The net profit margin of the company has increased to 6.23 per cent in FY2019 as compared to 1.43 per cent in previous year.

### Intense competition:

The iron and steel industry is a highly fragmented industry and there is large number of organized and unorganized players which has led to high competition in the industry. The group faces competition from few large players as well as numerous players in the unorganized segment. Also on account of its manufacturing nature of business, the entry barriers are low, leading to stiff competition for the company.

### Rating Sensitivity

- Scaling up of operations while maintaining profitability margin

### Material Covenant

None

### Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals of Rs.12.10 crore as against of Rs.0.26 crore of yearly debt obligation. The cash accruals of the group are estimated to remain in the range of around Rs. 8.28 crore to Rs. 11.80 crore during 2020-22 against repayment obligations ranging from Rs. 3.00 crore. The working capital of the group is well managed marked by gross current asset days of 97 in FY2019. The adequate liquidity position of the group also marked by 12 per cent of utilization of working capital limit for six months ended 30<sup>th</sup> September 2019. The current ratio of the group stands comfortable at 2.38 times in FY2019. Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals against nominal debt repayments over the medium term.

### Outlook: Stable

Acuité believes that LN group will continue to benefit over the medium term from the promoters vast experience and from its established relationship with its key suppliers. The outlook may be revised to 'Positive' if LN achieves more than envisaged sales and profitability while maintaining its financial risk profiles. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Revenue	Rs. Cr.	169.10	142.81	113.36
EBITDA	Rs. Cr.	8.72	6.30	6.42
PAT	Rs. Cr.	10.54	2.04	0.91
EBITDA Margin	(%)	5.15	4.41	5.66
PAT Margin	(%)	6.23	1.43	0.80
ROCE	(%)	19.61	8.88	16.00
Total Debt/Tangible Net Worth	Times	0.35	0.23	0.67
PBDIT/Interest	Times	9.37	2.33	1.70
Total Debt/PBDIT	Times	1.35	1.57	3.69
Gross Current Assets (Days)	Days	97	106	144

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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
03-Aug-2018	Cash Credit	Long Term	12.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	2.20	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.80	ACUITE A3 (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A3 (Reaffirmed)

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### About Acuité Ratings & Research:

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