Press Release

P D Industries Private Limited

January 08, 2021

Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 38.25 Cr. (Enhanced from Rs.28.00 crore)
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed)

* *Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed and assigned the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.38.25 crore bank facilities of P D Industries Private Limited. The outlook is **'Stable'**.

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 and MS billet with the installed capacity of 60000 MTPA and 50400 MTPA respectively. In addition to that, the company also has its own power plant installed for 5 MW of power. The company has its manufacturing facility located in Raipur, Chhattisgarh.

L N Metallics Limited (LNML) was incorporated in 2003 by Mr. Ramesh Agarwal & Mr. Girdharilal Agarwal. The company is engaged in manufacturing of sponge iron with the installed capacity of 42000 MTPA. The company has its manufacturing facility located in Jharsugda, Orissa.

Analytical Approach:

Acuité has consolidated the financial and business risk profile of L N Metallics Limited (LNML) and P D Industries Private Limited (PDIPL). The group is herein being referred to as LN Group. The same is on account of common management, same line of operations and significant operational and financial linkages. Extent of consolidation: Full

Key Rating Drivers:

Strengths

Experienced management

The group and the promoters, Mr. Girdharilal Agarwal, Mr. Nitish Kumar Agarwal and Mr. Abhishek Agarwal, have a long execution track record of more than 15 years in iron and steel industry. The group through their long presence in this sector has established a healthy relationship with customers which has been for more than a decade. Acuité believes that the group will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the medium term.

Healthy financial risk profile

The financial risk profile of the group is marked by healthy net worth, comfortable gearing and healthy debt protection metrics. The net worth of the group stood at Rs.66.25 crore in FY 2020 as compared to Rs. 59.22 crore in FY2019. Acuité has considered Rs.16.00 crore of unsecured loan as quasi capital while calculating networth as the same is subordinated to the bank debt. The gearing of the group stood comfortable at 0.66 times as on March 31, 2020 when compared to 0.32 times as on March 31, 2019. The slight increase in gearing has been on account of increase in short term debt during the period. The total debt of Rs.43.69 crore consists of long term debt of Rs.13.21 crore, short term debt of Rs.26.17 crore and unsecured loan of Rs.4.30 crore. Interest coverage ratio (ICR) stood at 3.21 times in FY2020 as against 9.37 times in FY 2019. The debt service coverage ratio (DSCR) of the group stood at 1.93 times in FY2020 as compared to 7.73 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.08 times in FY2020 as compared to 0.64 times in the previous year. Going forward, Acuité believes the financial risk profile of the group will remain healthy backed by no major debt funded capex plan over the medium term and steady net cash accruals.

Healthy scale of operation coupled with improving profit margins

The revenue of the group stood healthy at Rs.147.81 crore in as compared to Rs.169.10 crore in the previous year. The group has earned Rs.116.62 crore till 30th November 2020 (Provisional).

The operating margin of the group stood comfortable at 6.45 per cent in FY2020 as compared to 5.15 per cent in the previous year. This improvement in profitability margin of the group is on account of starting of their MS ingot manufacturing in PD Industries Pvt Ltd. The in house consumption of sponge iron for the production of MS ingot has resulted in lower raw material consumption cost. Further, having own power plant reduces the power cost leading to improvement in overall operating margin of the group. Acuité believes that the profit margins f the group would be sustained at current levels over the medium term driven by their improved operating synergies.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation is marked by high gross current asset (GCA) days of 178 days in FY2020 as compared to 97 days in the previous year. The high GCA day is on account of high inventory holding period of 106 days in FY2020 as compared to 65 days in the previous year. This significant increase in inventory holding is on account of increase in raw material inventory during the year-end due to the nation-wide lockdown. The debtor days of the group stood comfortable at 9 days in FY2020 as compared to 8 days in the previous year. Acuité expects the GCA days to come down over the medium term with decrease in inventory levels.

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 their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The group has adequate liquidity marked by comfortable net cash accruals of Rs.3.43 crore as against Rs.3.23 crore long term debt obligations in FY2020. The cash accruals of the group are estimated to remain in the range of around Rs. 6.39 crore to Rs. 9.66 crore during 2021-23 against Rs.3.23 crore in FY2021 and Rs.4.67 crore of long term debt obligations during FY2022 and FY2023 respectively. The current ratio of the group stood healthy at 1.87 times in FY2020. Further, the liquidity of the group is also strengthened by the unencumbered cash of Rs.10.34 crore in FY 2020. The bank limit is utilized ~60 per cent during the last six months ended November 2020. F The working capital management of the group is marked by Gross Current Asset (GCA) days of 178 days in FY2020. The group has availed the loan moratorium till Aug 2020 for Term Loan & CC and also availed COVID emergency fund of Rs.5.02 crore. The said loan is to be repaid over a period of 4 years including, 1 year of moratorium. Acuité also believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals against long 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 group 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 (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	147.81	169.10
PAT	Rs. Cr.	1.34	10.54
PAT Margin	(%)	0.91	6.23
Total Debt/Tangible Net Worth	Times	0.66	0.32
PBDIT/Interest	Times	3.21	9.37

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	74.65	89.66
PAT	Rs. Cr.	0.76	8.47
PAT Margin	(%)	1.01	9.44
Total Debt/Tangible Net Worth	Times	0.73	0.28
PBDIT/Interest	Times	3.51	10.37

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition –https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities – https://www.acuite.in/view-rating-criteria-59.htm
- 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

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
01-Nov-2019	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Short Term	Short Term	3.00	ACUITE A3 (Reaffirmed)
03-Aug-2018	Cash Credit	Long Term	13.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	13.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A3 (Assigned)

*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	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Sep 2018	10.25%	March 2024	15.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:
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