Press Release

P D Industries Private Limited

September 28, 2021

Rating Upgraded

Total Bank Facilities Rated*	Rs. 38.25 Cr.
Long Term Rating	ACUITE BBB/Stable (Upgraded)

** Refer Annexure for details*

Rating Rationale

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

The rating upgrade is driven by improvement in business risk profile of the group marked by continuous growth in profitability while sustaining their healthy scale of operation. The rating upgrade also takes into account the improvement in their overall financial risk profile and working capital management.

The rating continues to reflect the extensive experience of the management in the iron and steel industry. The rating also reflects adequate liquidity position and comfortable financial risk profile of the group. However, these strengths are partially offset by intense competition in domestic market.

About the company

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 an installed capacity of 60,000 MTPA and 50,400 MTPA respectively. In addition to that, the company also has its own power plant installed of 5 MW. The company has its manufacturing facility located in Raipur, Chhattisgarh.

About the group company

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 an installed capacity of 42,000 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 and long track record of operation

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 the iron and steel industry. The group through their long presence in this sector has established a healthy relationship with customers 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 moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth of the group stood moderate at Rs.68.91 crore in FY 2021 (Prov.) as compared to Rs 66.25 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. Acuité has included Rs.9.17 crore of unsecured loan as a part of networth as the same is subordinated to bank debt. The gearing of the company has stood comfortable at 0.47 times as on March 31, 2021 (Prov.) when compared to 0.66 times as on March 31, 2020. Interest coverage ratio (ICR) is strong and stood at 3.66 times in FY2021 (Prov.) as against 3.21 times in FY 2020. The debt service coverage ratio (DSCR) of the group also stood comfortable at 1.82 times in FY2021 (Prov.) as compared to 1.93 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.29 times in FY2021 (Prov.) as compared to 0.08 times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain comfortable on account of steady net cash accruals and no major debt funded capex plan over the near term.

Healthy scale of operation coupled with improving profitability margin
The revenue of the group stood healthy at Rs.206.75 crore in FY2021 (Prov.) as compared to Rs.147.81 crore in the previous year. This improvement in revenue is on account of increase in volume sales of MS Ingot to 29238 MT in FY2021 (Prov.) as compared to 10665 MT in the previous year along with increase in average realization during the period.

The PD group has constantly reported healthy profitability margins as reflected from the operating margins of 7.35 per cent in FY2021 (Prov.) as compared to 6.45 per cent in the previous year. This improvement in profitability is on account of decrease in raw material prices. The net profitability margin of the group also stood healthy at 3.16 per cent in FY2021 (Prov.) as compared to 0.91 per cent in the previous year. Acuité believes the profitability margin of the group will 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 management of the group is marked by moderate gross current asset (GCA) days of 116 days in FY2021 (Prov.) as compared to 178 days in the previous year. This significant improvement in GCA days is on account of decrease in inventory holding period to 72 days in FY2021 (Prov.) as compared to 106 days in the previous year. The debtor days of the company stood comfortable at 6 days in FY2021 (Prov.) as compared to 9 days in the previous year. Moreover, the working capital facilities have been utilized on an average by 44 per cent for the last seven months ended June 2021. Acuité believes that the ability of the group to manage its working capital operations efficiently will remain a key rating sensitivity.

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 operation while improving their profitability margin
- Sustenance of existing conservative capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The group has adequate liquidity marked by moderate net cash accruals of Rs.9.37 crore as against Rs.3.23 crore long term debt obligation during FY2021 (Prov.). The cash accruals of the group are estimated to remain in the range of around Rs. 13.42 crore to Rs. 17.41 crore during 2022-24 as against Rs.3.23 crore in FY2022 and in FY2023 of long term debt obligations. The current ratio of the group stood comfortable at 1.92 times in FY2021 (Prov.). The working capital management of the company is marked by comfortable Gross Current Asset (GCA) days of 116 days in FY2021 (Prov.). The bank limit of the company has been ~44 per cent utilized during the last seven months ended in June 2021. The group has 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	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	206.75	147.81
PAT	Rs. Cr.	6.53	1.34
PAT Margin	(%)	3.16	0.91
Total Debt/Tangible Net Worth	Times	0.47	0.66
PBDIT/Interest	Times	3.66	3.21

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	133.32	74.65
PAT	Rs. Cr.	5.29	0.76
PAT Margin	(%)	3.97	1.01
Total Debt/Tangible Net Worth	Times	1.15	0.89
PBDIT/Interest	Times	3.51	3.51

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-52.htm
- Manufacture Entities– https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments – https://www.acuite.in/view-rating-criteria-53.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
08-Jan-2021	Cash Credit	Long Term	20.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	3.25	ACUITE BBB-/Stable (Assigned)
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**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Upgraded)
HDFC Bank	Term Loan	Sep 2018	10.25%	Mar 2024	15.00	ACUITE BBB/Stable (Upgraded)
HDFC Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE BBB/Stable (Upgraded)

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About Acuité Ratings & Research:

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