Press Release
P D Industries Private Limited
August 21, 2024
Rating Upgraded and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BBB+ | Stable | Upgraded	-
Bank Loan Ratings	13.25	Not Applicable | Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	13.25	-	-

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB+' (read as ACUITE t riple B plus)** from '**ACUITE BBB' (read as ACUITE t riple B)** on the Rs.25.00 crore bank facilities of P D Industries Private Limited. The outlook is **'Stable'**.
Acuité has withdrawn its long-term limit without assigning any rating on the Rs.13.25 crore bank facilities of P D Industries Private Limited as it is a proposed facility. The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating as applicable to the respective facility / instrument. The rating is being withdrawn on account of request received from the company.

Rationale for Upgrade in Rating

The rating continues to reflect the extensive experience of the management in the iron and steel industry along with improving profitability margins. It also considers the improving and strong financial risk profile of the company characterized by healthy networth, gearing below unity and comfortable debt coverage indicators and efficient working capital cycle. The rating also considers the adequate liquidity of the group in terms of maintaining free fixed deposits, low bank limit utilization and no debt obligations. These strengths are, however, partly offset by cyclical nature of the steel industry and the volatility in commodity prices resulting in slight decline in operating margin.

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 5 MW power plant installed. The manufacturing facility located in Raipur, Chhattisgarh. The Company was incorporated by Mr. PD Agrawal, Surendra Kumar Agrawal & Birendra Kumar Agrawal .

About the Group

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 60,000 MTPA. The company has its manufacturing facility located in Jharsugda, Orissa.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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 referred to as the LN Group on account of common management, similar line of operations, and significant operational and financial linkages.

Key Rating Drivers

Strengths

Improvement in profitability margins

The EBITDA margin stood at 8.60 percent in FY24 (Prov.) as against 7.11 percent in FY23 and 6.08 percent in FY22. This margin depends upon the fluctuations in raw material prices and the group's ability to pass it on the end consumers. The group also has a 5MW Waste Heated Recovery Boiler in Raipur which provides advantage in terms of reduced cost per unit compared to sourcing from grid. The group relies entirely on self generated power, utilizing 100 percent of its capacity. In case of power shortfall, they supplement their needs by outsourcing it from the grid. A decline in coal price coupled with captive consumption of power has led to improvement in the margins in FY2024. The PAT margin stood at 5.62 percent in FY24 (Prov.) as against 4.32 percent in FY2022 and 3.26 percent in FY2021. The increase is due to the reduced interest expenses considering lesser borrowing requirements of the group Acuite believes that the revenue of the group will slightly increase on account of steady demand in iron and steel industry in domestic market.

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 at Rs.106.53 Cr in FY24 (Prov.) as against Rs.83.43 crore in FY 2023 and Rs 67.81 crore in FY2022 due to accretion of reserves. The gearing stood below unity at 0.18 times in FY24 (Prov.) as compared to 0.26 times in FY2023 and 0.42 times in FY2022. Interest coverage ratio stood at 12.68 times in FY2024 (Prov.) as against 10.34 times in FY2023 and 4.92 times in FY2022. The debt service coverage ratio stood at 10.16 times in FY24 (Prov.) as against 8.16 times in FY2023 and 4.22 times in FY22. The net cash accruals to total debt (NCA/TD) stood at 1.04 times in FY2024 (Prov.) as against 0.85 times in FY2023 and 0.48 times in FY22. Acuite believes the financial risk profile of the group will remain average on account of steady net cash accruals over the near term and absence of any major debt funded capex plan.

Efficient Working Capital Management

The group has a efficient working capital cycle as reflected from Gross Current Assets (GCA days) of 81 days in FY24 (Prov.) as against 76 days in FY2023 and 93 days in FY2022. The inventory days stood at 48 days in FY24 (Prov.) as against 46 days in FY2023 and 69 days in FY2022. The group stores coal and iron for 2 months. Additionally, the inventory levels are adjusted in response to the fluctuations in market prices. The debtor days stood at 10 days in FY24 (Prov.) as against 5 days in FY23 and FY22. The group offers credit terms to its customers ranging from 7 to 10 days and depending upon the nature of the relationship with each party. The creditor days stood at 8 days in FY24 (Prov.) as against 17 days in FY23 and 16 days in FY22. The group negotiates credit terms with its suppliers securing a 20-day payment period within a month of purchase. Certain suppliers like NMDC (National Mineral Development Corporation) and South Eastern Coalfields require advance payment in full. Acuite believes that the working capital operations of the group will remain at similar levels over the medium term.

Weaknesses

Decline in operating income

The group has achieved an operating income of Rs.309.89 Cr in FY24 (Prov.) as against

Rs.361.29 Cr in FY23 and Rs.331.30 Cr in FY22. The prices of steel intermediaries had declined during FY 2023 and FY 2024, leading to a decline in price realisations from sale of products. Furthermore, the capacity utilisation of sponge iron had also declined slightly. However,the group has reported revenues of Rs.86.86 Cr in Q1FY2025. Acuite believes that since the prices of steel have stabilised in present year, the revenues of the group is also expected to improve over the medium term.

Susceptibility to volatility in raw material prices and cyclicality inherent in the steel industry

Raw material consumption is the single largest cost component for the secondary players in iron and steel industry. The group does not have backward integration for its raw materials which are purchased directly from manufacturers located in Orissa and Chhattisgarh. Further, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion lead to a demand and supply mismatch. Acuite believes that the profitability of the group will continue to remain susceptible to volatility in raw material prices and cyclicality inherent in the steel industry.

Rating Sensitivities

- Scaling up of operation while improving their profitability margin
- Sustenance of existing conservative capital structure

Liquidity Position

Adequate

The group has adequate liquidity as reflected from net cash accruals of Rs.20.31 Cr. against a nil repayment of debt obligations. The unsecured loans comprise of loans from directors who have chosen to park their funds with the group to take advantage of potential investment opportunities. The group maintains unencumbered fixed deposits of ~Rs.24 Cr.

P D Industries Private Limited is currently undertaking a project to manufacture a caster for billets with a projected cost of ~Rs.4 Cr. The project is scheduled to be operational by December 2024. The current ratio stood high at 4.39 times in FY24 (Prov.) as against 2.08 times in FY2023 and 2.94 times in FY2022. The bank limit of P D Industries Private Limited has been 7.93 per cent utilized during the last six months ended in July 2024. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals against nil long debt repayments and free FDs over the medium term.

Outlook: Stable

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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	309.89	361.29
PAT	Rs. Cr.	17.40	15.62
PAT Margin	(%)	5.62	4.32
Total Debt/Tangible Net Worth	Times	0.18	0.26
PBDIT/Interest	Times	12.68	10.34

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

Not Applicable

Any Other Information

None

Applicable Criteria

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

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 May 2023	Cash Credit	Long Term	25.00	ACUITE BBB | Stable (Upgraded from ACUITE BB+)
	Proposed Long Term Bank Facility	Long Term	13.25	ACUITE BBB | Stable (Upgraded from ACUITE BB+)
22 Dec 2022	Cash Credit	Long Term	20.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB | Stable)
	Working Capital Demand Loan (WCDL)	Long Term	3.25	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB | Stable)
	Term Loan	Long Term	15.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB | Stable)
28 Sep 2021	Term Loan	Long Term	15.00	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
	Working Capital Demand Loan (WCDL)	Long Term	3.25	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
	Cash Credit	Long Term	20.00	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
08 Jan 2021	Cash Credit	Long Term	20.00	ACUITE BBB- | Stable (Reaffirmed)
	Cash Credit	Long Term	3.25	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB- | Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE BBB+ | Stable | Upgraded (from ACUITE BBB)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	13.25	Not Applicable | Withdrawn

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No.	Company Name
1	L N Metallics Limited
2	P D Industries Private Limited

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.