

Press Release

Laxcon Steels Limited

October 04, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 205.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A1

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs. 205.00 crore bank facilities of Laxcon Steels Limited. The outlook is '**Stable**'.

LSL was incorporated in 1999 and subsequently got acquired by the Delhi-based Gopal group in 2002. LSL is the flagship company of the Gopal group, which is promoted by Mr. Gopal Swarup Gupta and family. The company is engaged in the manufacturing of high quality stainless steel grades like Austenitic, Martensitic, Ferritic, Precipitation Hardening, among others.

Analytical Approach

Acuite has taken a standalone view of the financial and business risk profile of LSL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The rating draws comfort from the longstanding experience of the promoters in the steel industry with its high-quality products. The promoter Mr. Gopal Swarup Gupta has been associated with the steel industry for four decades. Through active participation and innovation in the business the promoters have developed and built long term relations with both customers and suppliers all over the world. Acuite believes that LSL will benefit from the established presence in the steel industry and experienced management over the medium term.

- **Healthy product mix along with growth in revenue**

LSL's operating income grew by ~53 percent to Rs.782.45 crore in FY2018 (Provisional) from Rs.509.86 crore in FY2017 and Rs.437.32 crore in FY2016. The growth in operating income is driven by the capacity addition over the past two years, and higher sales of high value products. LSL majorly caters to the domestic market as reflected in the nearly 80% contribution to the company's gross sales. LSL's product portfolio includes variety of products such as bright bars, precision shaft quality bars, Angles and forging quality ingots. The products have critical applications across several sectors such as oil & gas, defense, energy & power, mechanical power transmission to name a few, and branded as 'Laxcon'. The company's operating profitability has improved steadily over the years to 8.69% in FY2018 (Provisional) from 6.85% in FY2016 supported by the high quality products and diversified product mix. Hence, the company's return on capital employed (RoCE) increased to 15.45% in FY2018 (Provisional) from 11.90% in the previous year. Acuite believes that LSL's growth in business operations will continue to be supported by the diversified product portfolio and state-of-the-art machinery which enables production of high quality alloyed steel from unalloyed steels.

- **Comfortable financial risk profile**

The financial risk profile is marked by low gearing and healthy debt protection metrics though underpinned by moderate net worth. The net worth stood at Rs.143.05 crore as on 31 March 2018 (Provisional) increased from Rs.119.01 crore as on 31 March 2017; this includes unsecured loan of Rs.11.27 crore as on 31 March 2018 (Provisional) which is considered as quasi equity. The adjusted gearing stood at 1.39 times as on 31 March 2018 (Provisional) as against 1.49 times as on 31 March

2017. Total outside liabilities to tangible net worth (TOL/TNW) stood moderate at 1.97 times as on March 31 2018 (Provisional) as compared to 2.03 times as on March 31 2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are healthy at 3.37 times and 1.90 times respectively for FY2018 (Provisional). Acuite believes that the financial risk profile is expected to improve over the medium term in the absence of major debt funded capex over the medium term.

Weaknesses

• Working capital intensive operations

LSL has working capital intensive nature of operations marked by Gross Current Assets (GCA) days of 157 in FY2018 (Provisional) despite improving from 189 days in FY2017. This is majorly due to the inventory holding period of 78 days in FY2018 (Provisional). The company mainly keeps inventory after first stage of production process because such requirement is inherent for the industry. The collection period stood at 57 days in FY2018 (Provisional). LSL enjoys credit period of 33 days from its suppliers which moderates the working capital requirements. Acuite believes that LSL's working capital intensive operations will be mitigated by the availability of adequate liquidity over the medium term.

• Susceptibility of profitability to volatility in raw material prices and foreign exchange rates

The major raw material for manufacturing stainless steel is steel scrap and the prices for the same are highly volatile in nature. Further the company meets around 60% of the requirement through imports and hence is susceptible to foreign exchange risk especially as the company doesn't undertake any hedging. Any adverse change in the prices of the raw material and exchange rate may impact the profitability margins of the company.

Outlook: Stable

Acuite believes that LSL will maintain a 'Stable' outlook over the medium term owing to its established presence in the steel industry and healthy growth in revenue while maintaining margins and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while maintaining profitability and comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	782.45	510.17	440.36
EBITDA	Rs. Cr.	60.52	44.33	35.62
PAT	Rs. Cr.	23.91	11.10	8.61
EBITDA Margin	(%)	7.73	8.69	8.09
PAT Margin	(%)	3.06	2.18	1.96
ROCE	(%)	15.45	11.90	9.45
Total Debt/Tangible Net Worth	Times	1.39	1.49	1.50
PBDIT/Interest	Times	3.37	2.41	2.32
Total Debt/PBDIT	Times	3.24	3.96	4.73
Gross Current Assets (Days)	Days	157	189	207

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	*60.00	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	**30.00	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE A- / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A- / Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	***70.00	ACUITE A1
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1

*Sublimit: WCDL up to Rs.60.00 crore; PCFC up to Rs. 30.00 crore; IDDBP/IDUBD/FDDBP/FDUBD/RDBF/RUBF – Non LC up to Rs. 10.00 crore

**Sublimit: EPC/PCFC/FBP/FBD up to Rs 30.00 crore

***Sublimit: Letter of Guarantee performance up to Rs.70.00 crore

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About Acuité Ratings & Research:

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