

Press Release

Laxcon Steels Limited

December 30, 2019

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.265.00 Cr. (Enhanced from Rs.205.00 Cr.)
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A1

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its 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.245.00 crore and assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.20.00 crore of Laxcon Steels Limited (LSL). The outlook is '**Stable**'.

LSL is a Flagship Company of Delhi-based 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. LSL caters to various sectors like, Automotive, Heavy Engineering, and Energy & Power to name a few. The company has its facility located at Ahmedabad, Gujarat.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Laxcon Steels Limited (LSL) and Metlax International Private Limited (MIPL) collectively referred to as 'Laxcon Group'. The consolidation is on account of common management, value chain with business line synergies within the group and management's stated posture of extending support within the group companies. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and improving business risk profile

Laxcon group has established presence in the steel industry backed by almost two decades of extensive industry experience of promoters, Mr. Gopal Swarup Gupta and Mr. Vinod Gupta. The group is one of the few large integrated players, producing different high quality stainless steel grades like, Austenitic, Martensitic, Ferritic, Percipitation Hardening. Laxcon Group markets its products under the name 'Laxcon'. The management has established rolling facility in Metlax International Private Limited with intent to extend support within value chain system of the group.

Further, the group has established working relationships with top players of domestic and export market such as CHG Forge Private Limited, Damtahl GmbH, Felix Technology Co. Limited and Bharat Heavy Electricals Limited among others.

The operating income of the group has grown at a CAGR of 43 per cent for the period FY2017-FY2019. The revenues increased to Rs.1043.43 crore in FY2019 from Rs.773.38 crore in FY2018. This is mainly on account of increased number of orders from exports market and focus on the defense supplies.

Acuite believes that the group will sustain its existing business profile on the back of established presence within industry and promoter's vintage.

• Healthy financial risk profile

The financial risk profile of the group is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of the group is healthy at around Rs.164.53 crores as on March 31, 2019 as against Rs.140.27 crore as on March 31, 2018. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves and the unsecured loans considered as quasi equity of Rs.13.88 crore as on March 31, 2019.

The group has followed moderate financial policy, the same is reflected through its peak gearing in the

past around 1.49 times as on 31 March, 2017, and improved marginally to 1.32 times as on March 31, 2019. The group has undergone capital expenditure plan of Rs.15.00 crore for increasing melting and casting capacity to 120000MT and 140000MT respectively in FY2019 from 92500MT and 120000MT respectively in FY2018. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 1.79 times as on March 31, 2019 as against 1.98 times as on March 31, 2018. The total debt of Rs.217.30 as on March 31, 2019 comprising of working capital borrowings to the tune of Rs.192.82 crore, term loans to the tune of Rs.15.65 crore and unsecured loans from the promoters to the tune of Rs.8.83 crore.

The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) stood at 2.82 times against 3.16 times for FY2018. This is due to marginal decline in profitability margins to 6.81 per cent in FY2019 from 7.51 percent in FY2018. Debt Service Coverage Ratio (DSCR) stood at 1.87 for FY2019 against 1.71 times in FY2018. Acuite believes that the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

• 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 group meets around 45% of the requirement through imports and derives 27% of the revenues through exports. Hence, the unhedged portion is susceptible to foreign exchange risk. Any adverse change in the prices of the raw material and exchange rate may impact the profitability margins of the group.

• Intense competition and inherent cyclical nature of steel industry

The group is exposed to intense competition in steel sector due to the presence of a large number of unorganised players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, the group's business risk profile is exposed to the inherent cyclicity in these sectors.

Liquidity position: Adequate

The group has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.20-33 crore during the last two years through FY2019, while its maturing debt obligations were in the range of Rs.4-6 crore over the same period. The cash accruals of the company are estimated to remain around Rs.35-50 crore during 2020-22, while its repayment obligation are estimated to be around Rs.7-8 crore over the same period. The working capital operations of the group improved significantly marked by gross current asset (GCA) days of 120 in FY2019. The cash credit limit remains utilised at 80 percent during the last one year ended October 2019. The group maintains unencumbered cash and bank balances of Rs.3.63 crore as on March 31, 2019. The current ratio stands at 1.33 times as on March 31, 2019. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accrual against repayments over the medium term.

Rating Sensitivity

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Elongated working capital cycle.

Material covenants

None

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1043.43	773.38
PAT	Rs. Cr.	23.17	20.40
PAT Margin	(%)	2.22	2.64
Total Debt/Tangible Net Worth	Times	1.32	1.42
PBDIT/Interest	Times	2.82	3.16

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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Oct-2018	Cash Credit*	Long Term	60.00	ACUITE A- / Stable (Assigned)
	Cash Credit**	Long Term	30.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A- / Stable (Assigned)
	Term Loan	Long Term	4.80	ACUITE A- / Stable (Assigned)
	Term Loan	Long Term	0.20	ACUITE A- / Stable (Assigned)
	Letter of Credit***	Short Term	70.00	ACUITE A1 (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Assigned)

*Sublimit: WCFC for 180 days/WCDL for 90 days 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

*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	60.00	ACUITE A-/Stable (Reaffirmed)
Cash Credit**	Not Applicable	Not Applicable	Not Applicable	60.00 (Enhanced from Rs.30.00 crore)	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00 (Enhanced from Rs.20.00 crore)	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/Stable (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/Stable (Assigned)
Letter of Credit***	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 (Reaffirmed)

*Sublimit: WCFC for 180 days/WCDL for 90 days 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

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Simranjeet Kaur Rating Analyst Tel: 022-49294052 simranjeet.kaur@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

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