

Press Release

Laxcon Steels Limited

October 29, 2021



Rating Upgraded, Withdrawn

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

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A-**' (**read as ACUITE A minus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating to '**ACUITE A1**' (**read as ACUITE A one**) from '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.265.00 crore bank facilities of Laxcon Steels Ltd. (LSL). The outlook is '**Stable**'.

Also, Acuité has upgraded and withdrawn the long-term rating to '**ACUITE A-**' (**read as ACUITE A minus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.5.00 crore bank facilities of LSL.

Rationale for rating upgrade

The rating upgradation takes into account improvement in operating margin, supporting the overall financial risk profile of the group in FY21 (Provisional). Despite lower operating income (down by ~4.5per cent) in FY21 (Provisional), Laxcon Group's EBITDA margin improved to 11.60per cent from 7.77 per cent in FY20. Net profit margin too expanded to 5.76per cent in FY21 (Provisional) from 3.49per cent in FY20. Resultantly, the group witnessed improvement in its financial risk profile marked by improvement in gearing position (1.08 times as on March 31, 2020 (Provisional) vs 1.42 times as on March 31, 2020) and debt protection metrics (4.46 times in FY21 (Provisional) vs 3.13 times in FY20). Further, higher steel prices and improved demand outlook for steel players would also support the group's performance in the near to medium term.

About the Company

Incorporated in August 1999, 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

Acuité has considered the consolidated business and financial risk profiles of LSL and Metlax International Private Limited (MIPL) and Ocean Steels Pvt. Ltd. (OSPL) collectively referred to as 'Laxcon Group'. The consolidation is on account of common management and value chain with business line synergies within the group. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

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, Precipitation Hardening. Laxcon Group markets its products under the brand name 'Laxcon'. The management has established rolling facility in MIPL with intent to extend support within value chain system of the group, while OSPL is a forward integration of LSL for manufacturing of bright bars. Further, the group has established working relationships with top players of domestic and export market such as CHG Forge Private Limited, Damtahl GmbH, and Felix

Technology Co. Limited among others.

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

The group's operating income in FY21 (Provisional) declined by 4.54per cent led by Covid-19-led disruptions. However, higher realization, led by higher steel prices and higher share of value-added products, supported the overall profitability of the group in FY21. EBITDA margin of the group expanded sharply to 11.60per cent in FY21 (Provisional) from 7.77per cent in FY20 and net profit margin improved to 5.76per cent in FY21 (Provisional) from 3.49per cent in FY20. Higher steel prices and demand recovery would support the revenue growth of the group in the near term. The team expects, Laxcon Group's operating income to grow at a CAGR of ~15per cent during FY22 to FY24 and its net profit margin would be ~5per cent to ~6per cent during the same period.

- **Healthy financial risk profile**

Laxcon Group has healthy financial risk profile marked by healthy net worth, comfortable gearing and debt-protection metrics. Net worth of the group improved to Rs.250.49 crore as on March 31, 2021 (Provisional) from Rs.194.33 crore a year back.

Improvement in net worth led to the group's debt to equity ratio falling to 1.08 times as on March 31, 2021 (Provisional) from 1.42 times a year back. The group's total debt stood at Rs.271.39 crore as on March 31, 2021 (Provisional), comprising long-term loans of Rs.24.06 crore, unsecured loans from directors/related parties of Rs.9.55 crore and short-term loan of Rs.237.77 crore. Going ahead, debt to equity ratio of the group is expected to improve further to below unity over a medium term. TOL/TNW of the group continued to improve and stood at 1.48 times as on March 31, 2021 (Provisional).

Interest coverage ratio of the company improved to 4.46 times in FY21 (Provisional) from 3.13 times a year back and DSCR stood at 2.22 times for FY21 (Provisional) compared to 1.66 times for FY20. Going ahead, interest coverage ratio is expected to improve further and would remain ~5.6 times to 7.12 times during FY22 to FY24, while DSCR would remain above 2 times.

Weaknesses

- **Moderately intensive working capital operations**

The group has moderately intensive working capital operations, which got stretched in FY21 marked GCA days increasing to 177 for FY21 (Provisional) from 145 for FY20. This was mainly on account of higher inventory days, which stood at 119 for FY21 (Provisional) compared to 93 a year back. Receivable days and payable days, for FY21 (Provisional) stood at 61 and 27, respectively. Average bank limit utilization during the 3 months through September 2021 stood at ~72per cent. Going ahead, GCA days of the group is estimated to remain over 150 in the medium term.

- **Susceptibility of profitability to volatility in raw material prices, risk of fluctuation in foreign currency and intense competition and inherent cyclical nature of steel industry**

The major raw material for manufacturing stainless steel is steel scrap and the prices for the same are highly volatile in nature. Also the group meets over 40per cent of the requirement through imports and derives over 25per cent 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.

Further, 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 cyclical nature in these sectors.

Liquidity Position – Adequate

The group has adequate liquidity marked by sufficient net cash accruals to maturing debt obligations. The group generated cash accruals of Rs.69.59 crore for FY21 (Provisional) against debt repayment of Rs.8.02 crore. Current ratio of the group stood at 1.44 times as on March 31, 2021 (Provisional). Average bank limit utilization during the 3 months through September 2021 stood at ~72per cent. Going ahead too liquidity position of the group is expected to remain adequate with healthy cash accruals to term debt repayment obligations. Cash accruals of the group is estimated in the range of ~Rs.87 crore to Rs.97 crore during FY22 to FY24 against debt repayment obligations of Rs.3.98 crore to Rs.11.81 crore during the same period.

Rating Sensitivities

- Significant improvement in operating income while maintaining operating margins
- Elongation of working capital cycle

Material Covenants

Unsecured loan withdrawn to be brought back, unsecured loans to be interest free and subordinated to bank loans and not to be withdrawn till the currency of bank dues

Outlook: Stable

Acuité 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, liquidity or elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	988.10	1035.09
PAT	Rs. Cr.	56.87	36.08
PAT Margin	(%)	5.76	3.49
Total Debt/Tangible Net Worth	Times	1.08	1.42
PBDIT/Interest	Times	4.46	3.13

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

Not Applicable

Any other information

Not Applicable

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
23-Mar-2021	Term Loan	Long Term	15.00	ACUITE BBB Issuer Not Cooperating^ (Downgraded from ACUITE A-/Stable)
	Cash Credit	Long Term	60.00	ACUITE BBB Issuer Not Cooperating^ (Downgraded from ACUITE A-/Stable)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB Issuer Not Cooperating^ (Downgraded from ACUITE A-/Stable)
	Letter of Credit	Short Term	10.00	ACUITE A3+ Issuer Not Cooperating^ (Downgraded from ACUITE A1)

	Letter of Credit	Short Term	70.00	ACUITE A3+ Issuer Not Cooperating^ (Downgraded from ACUITE A1)
	Term Loan	Long Term	0.20	ACUITE BBB Issuer Not Cooperating^ (Downgraded from ACUITE A-/Stable)
	Cash Credit	Long Term	60.00	ACUITE BBB Issuer Not Cooperating^ (Downgraded from ACUITE A-/Stable)
	Cash Credit	Long Term	30.00	ACUITE BBB Issuer Not Cooperating^ (Downgraded from ACUITE A-/Stable)
	Term Loan	Long Term	4.80	ACUITE BBB Issuer Not Cooperating^ (Downgraded from ACUITE A-/Stable)
	Cash Credit	Long Term	10.00	ACUITE BBB Issuer Not Cooperating^ (Downgraded from ACUITE A-/Stable)
30-Dec-2019	Term Loan	Long Term	15.00	ACUITE A- / Stable (Reaffirmed)
	Cash Credit*	Long Term	60.00	ACUITE A- / Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE A- / Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Letter of Credit***	Short Term	70.00	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	0.20	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE A- / Stable (Reaffirmed)
	Cash Credit**	Long Term	30.00	ACUITE A- / Stable (Reaffirmed)
	Term Loan	Long Term	4.80	ACUITE A- / Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- / Stable (Reaffirmed)
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)
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*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

^The issuer did not cooperate; based on best available information

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Indian Overseas Bank	Cash Credit*	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A-/Stable (Upgraded)
State Bank of India	Cash Credit**	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A-/Stable (Upgraded)
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A-/Stable (Upgraded)
South Indian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Stable (Upgraded)
South Indian Bank	Term Loan	Not Available	Not Available	Not Available	4.80	ACUITE A- (Withdrawn)
South Indian Bank	Term Loan	Not Available	8.50%	Not Available	9.50 Reduced from Rs.15.00 Cr.)	ACUITE A-/Stable (Upgraded)
Punjab National Bank	Term Loan	Not Available	Not Available	Not Available	0.20	ACUITE A- (Withdrawn)
Indian Overseas Bank	Letter of Credit***	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A1 (Upgraded)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 (Upgraded)
Indian Overseas Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A1 (Upgraded)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A1 (Upgraded)
South Indian Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A1 (Upgraded)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A-/Stable (Upgraded)

*Sublimit: WCFC for 180 days/WCDL for 90 days up to Rs.60.00 crore; PCFC up to Rs. 50.00 crore (enhanced from Rs.30 crore);

IDDBP/IDUBD/FDDBP/FDUBD/RDBF/RUBF – Non LC up to Rs. 20.00 crore (enhanced from Rs.10 crore). **Sublimit: EPC/ FBD up to Rs 60.00 crore; ***Sublimit: Letter of Guarantee performance up to Rs.70.00 crore

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About Acuité Ratings & Research Limited:

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