

Press Release

Laxcon Steels Limited

January 24, 2022



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	175.00	ACUITE A- Reaffirmed & Withdrawn	-
Bank Loan Ratings	90.00	-	ACUITE A1 Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	265.00	-	-

Rating Rationale

Acuité has reaffirmed and withdrawn the long-term rating of 'ACUITE A-' (read as ACUITE A minus) and the short term rating of 'ACUITE A1' (read as ACUITE A One) on the Rs.265.00 Cr bank facilities of Laxcon Steels Limited (LSL). The rating withdrawal is in accordance with Acuité's policy on withdrawal of ratings. The ratings are being withdrawn on account of request received from the company and NOC received from the bankers.

About the Company

Incorporated in August 1999, LSL is the flagship company of Delhi-based Gopal group, which is promoted by Mr. Gopal Gupta and family. The company is engaged in the manufacturing of high quality stainless steel grades like Austenitic, Martensitic, Ferritic, Precipitation, Hardening, etc. among others. LSL caters to various sectors like, automotive, heavy engineering, and energy & power to name a few. The company has its facility located in Ahmedabad, Gujarat.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of LSL, Metlax International Private Limited (MIPL) and Ocean Steels Private Limited (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, Percipitation 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 in these sectors.

Rating Sensitivities

Not Applicable

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.

Liquidity Position: Adequate

- Strong
- Adequate
- Poor
- Stretched

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.

Outlook: Stable

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (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>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- 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>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Oct 2021	Bank Guarantee	Short Term	2.00	ACUITE A1 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	6.00	ACUITE A1 (Upgraded from ACUITE A3+)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	0.20	ACUITE A- (Withdrawn)
	Term Loan	Long Term	9.50	ACUITE A- Stable (Upgraded from ACUITE BBB)
	Letter of Credit	Short Term	70.00	ACUITE A1 (Upgraded from ACUITE A3+)
	Cash Credit	Long Term	60.00	ACUITE A- Stable (Upgraded from ACUITE BBB)
	Term Loan	Long Term	4.80	ACUITE A- (Withdrawn)
	Proposed Bank Facility	Long Term	5.50	ACUITE A- Stable (Upgraded from ACUITE BBB)
	Bank Guarantee	Short Term	2.00	ACUITE A1 (Upgraded from ACUITE A3+)
	Cash Credit	Long Term	60.00	ACUITE A- Stable (Upgraded from ACUITE BBB)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Upgraded from ACUITE BBB)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Upgraded from ACUITE BBB)
23 Mar 2021	Cash Credit	Long Term	10.00	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	15.00	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	30.00	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	0.20	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	60.00	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	70.00	ACUITE A3+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	60.00	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.80	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.80	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE A- Stable (Reaffirmed)
		Long		

30 Dec 2019	Cash Credit	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)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Overseas Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A1 Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A1 Reaffirmed & Withdrawn
South Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A1 Reaffirmed & Withdrawn
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A- Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A- Reaffirmed & Withdrawn
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- Reaffirmed & Withdrawn
South Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- Reaffirmed & Withdrawn
Indian Overseas Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A1 Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A- Reaffirmed & Withdrawn
South	Not		Not		Not		ACUITE A-

Indian Bank	Applicable	Term Loan	available	8.5	available	9.50	Reaffirmed & Withdrawn
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Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Sonali Ved Senior Analyst-Rating Operations Tel: 022-49294065 sonali.ved@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.

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