Press Release

Sri Langta Baba Steels Private Limited

March 25, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A3 | Assigned
Bank Loan Ratings	42.83	ACUITE BBB- | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	52.83	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BBB-'** (read as ACUITE triple B minus) and short-term rating of **'ACUITE A3'** (read as ACUITE A three) to the Rs.52.83 Cr bank facilities of Sri Langta Baba Steels Private Limited (SLBSPL). The outlook is 'Stable'.

The rating is driven by sound business risk profile of the company marked by increase in operating income, growth in margins and experienced management. The rating also factors in the above average financial risk profile of the company marked by healthy debt coverage indicators. These strengths are, however, offset by the working capital intensive nature of operations and cyclical nature of the steel industry along with the volatility in commodity prices.

About the Company

Incorporated in 2005, Sri Langta Baba Steels Private Limited (SLBSPL) runs a fully automatic steel re-rolling mill in Jharkhand to manufacture MS Billets and thermo-mechanically treated bars (TMT). The directors of the company are Mr. Mohan Prasad Saw and Mr. Suraj Kumar Gupta. The installed capacity of MS Billets is 144000 MTPA and TMT bars is 150000 MTPA. The TMT bars are sold under the brand-name TUFFCON.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of Sri Langta Baba Steels Private Limited (SLBSPL).

Key Rating Drivers

Strengths

- **Long operational track record and experienced management**

The directors, Mr. Mohan Prasad Saw and Mr. Suraj Kumar Gupta of Sri Langta Baba Steels Private Limited (SLBSPL), have been in the iron and steel industry for around two decades.

Acuité derives comfort from the long experience of the promoters. SLBSPL has a long operational track record of 15 years. Acuité believes that the long track record of operations will benefit the company going forward.

- **Sound business risk profile buoyed by increase in operating income**

The sound business risk profile of the company is supported by increase in operating income. The growth in top line is primarily due to the increase in volumes of billets and TMT bars. SLBSPL has achieved revenues of Rs.243.64 Cr in FY21 as compared to revenues of Rs.188.81 Cr in FY20. However, it has achieved revenues of Rs.244.00 Cr (provisional) for the 9 months of FY2022.

- **Above average financial risk profile**

The above average financial risk profile is marked by modest albeit improved net worth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the group increased to Rs.38.38 Cr as on March 31, 2021 from Rs.28.17 Cr as on March 31, 2020 due to accretion of reserves. Gearing of the group stood comfortable at 0.80 times as on March 31, 2021 as against 1.28 times as on March 31, 2020, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.57 times as on March 31, 2021 as against 4.86 times as on March 31, 2020. The healthy debt protection metrics is marked by Interest Coverage Ratio at 4.31 times as on March 31, 2021 and Debt Service Coverage Ratio at 2.00 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.32 times as on March 31, 2021. Acuité believes that going forward the financial risk profile will remain healthy over the medium term, in absence of any major debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by Gross Current Assets (GCA) of 185 days in 31st March 2021 as compared to 231 days in 31st March 2020. The moderate level of GCA days is on account of moderate inventory levels during the same period. The inventory holding stood at 139 days in 31st March 2021 as compared to 173 days as on 31st March 2020. However, the debtor period stood comfortable at 36 days in 31st March 2021 as compared to 46 days in 31st March 2020. Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and moderate inventory levels over the medium term.

- **Intense competition and inherent cyclical nature of the steel industry**

The downstream steel industry remains heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivity

- Improvement in scale of operations while improving profitability margin
- Sustenance in their capital structure

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.9.65 Cr as on March 31, 2021 as against long term debt repayment of Rs.3.17 Cr over the same period. The fund based limit remains utilised at 84 per cent over the six months ended December, 2021. The group has not availed loan moratorium. The cash and bank balances of the group stood at Rs.0.29 Cr as on March 31, 2021 as compared to Rs.2.27 Cr as on March 31, 2020. The current ratio stood comfortable at 1.40 times as on March 31, 2021 as compared to 1.31 times as on March 31, 2020. However, the working capital intensive nature of operations is marked by Gross Current Assets (GCA) of 185 days in 31st March 2021 as compared to 231 days in 31st March 2020. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on SLBSPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and above average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, deterioration in financial risk profile or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	243.64	188.81
PAT	Rs. Cr.	5.43	3.92
PAT Margin	(%)	2.23	2.08
Total Debt/Tangible Net Worth	Times	0.80	1.28
PBDIT/Interest	Times	4.31	3.19

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated May 25, 2021 had denoted the rating of Sri Langta Baba Steels Private Limited as 'CRISIL BB/Stable/A4+; ISSUER NOT COOPERATING'.

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
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 | Assigned

Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB- | Stable | Assigned
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	5.45	ACUITE BBB- | Stable | Assigned
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 | Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.38	ACUITE BBB- | Stable | Assigned

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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.