

## Press Release

Sri Langta Baba Steels Private Limited

April 26, 2023



### Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.95	ACUITE BBB   Stable   Assigned	-
Bank Loan Ratings	42.44	ACUITE BBB   Stable   Upgraded	-
Bank Loan Ratings	2.61	-	ACUITE A3+   Assigned
Bank Loan Ratings	10.39	-	ACUITE A3+   Upgraded
<b>Total Outstanding Quantum (Rs. Cr)</b>	81.39	-	-

### Rating Rationale

Acuite has upgraded the long-term rating to **'ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short-term rating to **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs.52.83 Cr bank facilities of Sri Langta Baba Steels Private Limited (SLBSPL).

Acuite has also assigned the long-term rating of **'ACUITE BBB' (read as ACUITE triple B)** and the short-term rating of **'ACUITE A3+ (read as ACUITE A three plus)** on the Rs.28.56 Cr bank facilities of Sri Langta Baba Steels Private Limited (SLBSPL). The outlook is **'Stable'**.

#### Rationale for rating upgrade and assigned

The rating is majorly on account of considerable improvement in the business risk profile of the company marked by a substantial growth in revenues of the company in FY'22 and also in FY23 (Provisional). The revenues of the company improved from Rs.243.64 crore in FY21 to Rs.380.63 crore in FY22. Also, the company registered revenues of Rs.595.68 crore in FY23 (Provisional). The growth was majorly driven by higher demand of rolled steel products with improvement in average realisations. The rating also draws comfort from above average financial risk profile of the company with comfortable capital structure and adequate liquidity position.

However, the above mentioned strengths are offset by moderate profitability margins and working capital intensive nature of operations. Furthermore, profitability of the company remains susceptible towards volatility in raw material prices the revenues and cyclical nature of the steel industry.

#### 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 are 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**

#### **Experienced Management and long track record of operation**

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 nearly two decades. Acuité believes that the long track record of operations will benefit the company going forward.

#### **Improvement in scale of operations**

The revenue of the company increase to Rs.380.63 crore in FY22 as compared to Rs.243.64 crore in the previous year reflecting a growth of 56.23 per cent respectively. This growth of the revenue is majorly due to an increase in average realization per unit during FY22 along with increase in unit sold backed by steady demand for rolled products in the domestic market. Further, the average realization of the rolled product has also improved during the 10MFY2023 (Provisional) along with increase in units sold, which further leads to significant improvement in overall top line of the company. Furthermore, the company also registered revenues of Rs.595.66 crore in FY23 (Provisional). However, the operating profitability margin of the company has deteriorated marginally to 5.33 per cent in FY22 as compared to 5.71 per cent in the previous year majorly on account of increase in raw material prices during the period. The operating profitability margin of the company remained stagnant at 5.25 per cent in FY23 (Provisional).

Acuité believes that the improvement in revenues of the company is expected to continue on account of improvement in realization and demand of rolled steel products over the medium term.

#### **Above average financial risk profile**

The financial risk profile of the company is marked by moderate net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood moderate at Rs.47.02 crore in FY22 as compared to Rs 38.38 crore in FY21. This improvement in network is mainly due to the retention of profit for FY2022. Acuité has also considered Rs.4.86 crore of unsecured loan as quasi equity, as the same amount is subordinated with bank debt. The gearing of the company stood at 0.94 times as on March 31, 2022 when compared to 0.80 times as on March 31, 2021. Interest coverage ratio (ICR) is strong and stood at 5.52 times in FY2022 as against 4.31 times in FY2021. The debt service coverage ratio (DSCR) of the company also stood healthy at 3.64 times for FY22 as compared to 2.00 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.32 times for FY22 and in FY21 respectively. Going forward, Acuite believes the financial risk profile of the company will remain healthy on account of steady net cash accruals over the near term and absence of any debt funded capex plan.

## **Weaknesses**

#### **Working Capital intensive nature of operation**

The working capital management of the company is marked by high GCA days of 144 days as on 31st March 2022 as compared to 185 days in previous year. This high GCA day is mainly on account of the high other current assets, which mainly consisting of advance for goods &

services, advance tax paid as on 31st March 2022. Though the inventory days of the company have improved but stood high at 109 days as on 31st March 2022 as compared to 139 days in the previous year. The debtor days stood comfortable at 30 days as on 31st March 2022 as compared to 36 days in the previous year. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

### **Susceptibility to volatility in raw material prices and cyclicity inherent in the steel industry**

Raw material consumption is the single largest cost component for the secondary players in iron and steel industry. The company does not have backward integration for its raw materials and the same is purchased from traders located in UP, Jharkhand, Orissa, Bengal and Madhya Pradesh. Further, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion leads to demand supply mismatch.

### **Rating Sensitivities**

- Growth in scale of operations while improving operating profitability.
- Working capital management
- Sustenance in their capital structure

### **Material covenants**

None

### **Liquidity Position Adequate**

The company has adequate liquidity position marked by comfortable net cash accruals of Rs.14.26 crore as against Rs.1.22 term debt obligations in FY22. The cash accruals of the company are estimated to remain in the range of around Rs. 21.49 crore to Rs. 23.71 crore during 2023-24 as against Rs.2.71 crore long term debt obligations during FY23 and Rs.2.01 crore of long-term debt obligations during FY24. The current ratio of the company stood moderate at 1.32 times in FY22. The bank limit of the company has been ~84 percent utilized during the last six months ended in March 2023 on account of working capital intensive nature of operations of the company reflected by high Gross Current Asset (GCA) days of 144 days in FY2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against the long debt repayments over the medium term.

### **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.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	380.63	243.64
PAT	Rs. Cr.	8.56	5.43
PAT Margin	(%)	2.25	2.23
Total Debt/Tangible Net Worth	Times	0.94	0.80
PBDIT/Interest	Times	5.52	4.31

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

India Ratings, vide its press release dated Dec 28, 2022 had denoted the rating of Sri Langta Baba Steels Private Limited as 'IND BB+/A4+; ISSUER NOT COOPERATING'.

CRISIL, vide its press release dated July 27, 2022 had downgraded the rating of Sri Langta Baba Steels Private Limited as 'CRISIL B/Stable/A4; ISSUER NOT COOPERATING'.

CARE, vide its press release dated June 22, 2022 had denoted the rating of Sri Langta Baba Steels Private Limited as 'CARE B+/Stable; ISSUER NOT COOPERATING'.

Brickwork, vide its press release dated Mar 24, 2022 had downgraded the rating of Sri Langta Baba Steels Private Limited as 'BWR B/Stable/A4; ISSUER NOT COOPERATING'.

### Any other information

None

### 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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Mar 2022	Working Capital Term Loan	Long Term	5.45	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	9.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	2.38	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.39	ACUITE A3+   Upgraded
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	2.61	ACUITE A3+   Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BBB   Stable   Upgraded
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB   Stable   Assigned
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	5.45	ACUITE BBB   Stable   Upgraded
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	0.95	ACUITE BBB   Stable   Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.99	ACUITE BBB   Stable   Upgraded

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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