

Press Release

New Laxmi Steel And Power Private Limited

June 15, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	63.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	63.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 63.00 Cr bank facilities of New Laxmi Steel and Power Private Limited (NLSPPL). The outlook is '**Stable**'.

The rating on NLSPPL takes into account its strong business position as reflected from its integrated nature of operations in the steel sector, sharp increase in the operating income and a stable brand presence in the TMT segment. Further, it is also supported by the management's long track record in the sector, above average financial position characterized by strong debt coverage indicators and moderate working capital management. These strengths are, however, partly offset by the cyclical nature of the steel industry and the volatility in commodity prices.

About the Company

Incorporated in 2007, New Laxmi Steel and Power Private Limited (NLSPPL) was promoted by Mr. Pawan Kumar Gupta and Mr. Rahul Agarwal in Odisha. The company is engaged in the manufacture of sponge iron, billets and TMT bars. Currently, the company has a capacity of 102,200 MTPA of Sponge Iron, 29,700 MTPA of Billet and 60,000 MTPA of TMT. The TMT bars are primarily sold under the brand name 'Kamdhenu TMT' and a few are sold under the company's own brand namely, 'Perfect TMT'.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of NLSPPL while arriving at the rating.

Key Rating Drivers

Strengths

Long operational track record and experienced management

The company has been in the iron and steel industry for more than fifteen years. Acuite believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations. Further, the key promoter of the company, Mr. Pawan Kumar Gupta has an experience of around two decades in the iron and steel industry. Acuite derives comfort from the long experience of the promoter.

Strong business risk profile supported by integrated nature of operations and locational advantage

The strong business risk profile of the company is supported by the integrated nature of operations of the company; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. Also, the revenue of the company has improved to Rs.300.04 Cr in FY2022 (provisional) as compared to revenues of Rs.221.94 Cr in FY2021 and Rs.163.79 Cr in FY2020, thereby registering a 2-year CAGR of 35.25 per cent. Acuité believes that the sustainability in the revenue growth would be a key monitorable going forward.

In addition to this, the company has a locational advantage as the plants are located in the industrial area of Odisha, which is in close proximity to various steel plants and sources of raw materials. Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

Above average financial risk profile

The company's above average financial risk profile is marked by modest albeit improving networth, moderate gearing and strong debt protection metrics. The tangible net worth of the company increased to Rs.50.36 Cr as on March 31, 2022 (provisional) from Rs.33.48 Cr as on March 31, 2021 due to accretion of reserves. Acuité has considered unsecured loans to the tune of Rs.7.17 Cr as on March 31, 2022 (provisional) as part of networth as these loans are subordinated to bank debt. Gearing of the company stood moderate at 1.24 times as on March 31, 2022 (provisional) as against 1.40 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.79 times as on March 31, 2022 (provisional) as against 2.16 times as on March 31, 2021. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 5.05 times as on March 31, 2022 (provisional) and Debt Service Coverage Ratio at 2.01 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.20 times as on March 31, 2022 (provisional). Acuité believes that going forward the financial risk profile of the company will further improve to a healthy level over the medium term, in absence of any major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 129 days as on 31st March 2022 (provisional) as compared to 116 days as on 31st March 2021. The high level of GCA days is on account of moderate inventory levels during the same period. The inventory holding stood at 88 days as on 31st March 2022 (provisional) as compared to 45 days as on 31st March 2021. However, the debtor period stood comfortable at 17 days as on 31st March 2022 (provisional) as compared to 8 days as on 31st March 2021. Acuité believes that the working capital operations of the company 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.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Sustenance of revenue growth
- Improvement in profitability margin
- Elongation of working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.12.40 Cr as on March 31, 2022 (provisional) as against long term debt repayment of Rs.4.22 Cr over the same period. The current ratio stood comfortable at 1.37 times as on March 31, 2022 (provisional) as compared to 1.34 times as on March 31, 2021. The fund based limit remains utilised at 68 per cent over the eight months ended May, 2022. The cash and bank balances of the company stood at Rs.3 Cr as on March 31, 2022 (provisional) as compared to Rs.18.28 Cr as on March 31, 2021. The current ratio stood comfortable at 1.37 times as on March 31, 2022 (provisional) as compared to 1.34 times as on March 31, 2021. However, working capital management of the company is moderate marked by Gross Current Assets (GCA) of 129 days in 31st March 2022 (provisional) as compared to 116 days in 31st March 2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook of the company will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business position and above average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or delay in completion of its projects or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	221.94	163.79
PAT	Rs. Cr.	5.98	2.75
PAT Margin	(%)	2.69	1.68
Total Debt/Tangible Net Worth	Times	1.40	2.16
PBDIT/Interest	Times	3.23	2.03

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>

Note on complexity levels of the rated instrument

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BBB Stable Assigned
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB Stable Assigned
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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