

Press Release

New Laxmi Steel And Power Private Limited

February 01, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	27.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	63.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	90.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 63.00 Cr bank facilities and has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 27.00 Cr bank facilities of New Laxmi Steel and Power Private Limited (NLSPPL). The outlook remains '**Stable**'.

Rationale for the rating

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. Acuité 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. Acuité 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.299.49 Cr in FY2022 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 35.02 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 but improving networth, moderate gearing and strong debt protection metrics. The tangible net worth of the company increased to Rs.49.77 Cr as on March 31, 2022 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 as part of networth as these loans are subordinated to bank debt. Gearing of the company stood moderate at 1.41 times as on March 31, 2022 as against 1.40 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.83 times as on March 31, 2022 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 5.26 times as on March 31, 2022, however, the Debt Service Coverage Ratio stood moderate at 1.92 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.16 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the company will remain above average over the medium term, in absence of any major debt funded capex plans.

Weaknesses

- **Moderate working capital management**

The working capital management of the company is moderate marked by Gross Current Assets (GCA) of 127 days in 31st March 2022 as compared to 116 days in 31st March 2021. The modest GCA days is on account of moderate inventory levels during the same period. The inventory holding stood at 88 days in 31st March 2022 as compared to 45 days as on 31st March 2021. However, the debtor period stood comfortable at 14 days in 31st March 2022 as compared to 8 days in 31st March 2021. Acuité believes that the working capital operations of the company will remain around similar levels as evident from the efficient collection mechanism and moderate inventory period over the medium term.

- **Cyclical nature of the industry**

Steel consumption is majorly dependent on the economic activities taking place in and around the country. The end-user industry being Infrastructure and Real Estate, any significant

slowdown in these industries will affect the revenues of steel players. Further, NLSPPPL competes with various players in the organized and unorganized segments in the steel industry, thus limiting the pricing power.

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.11.24 Cr as on March 31, 2022 as against long term debt repayment of Rs.4.22 Cr over the same period. The current ratio stood comfortable at 1.30 times as on March 31, 2022 as compared to 1.34 times as on March 31, 2021. The fund based limit remains utilised at 76 per cent over the six months ended November, 2022. The cash and bank balances of the company stood at Rs.6.16 Cr as on March 31, 2022. However, the working capital management of the company is moderate marked by Gross Current Assets (GCA) of 127 days in 31st March 2022 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 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.	299.49	221.94
PAT	Rs. Cr.	9.13	5.98
PAT Margin	(%)	3.05	2.69
Total Debt/Tangible Net Worth	Times	1.41	1.40
PBDIT/Interest	Times	5.26	3.23

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

None

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>
- 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, Acuité 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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jun 2022	Cash Credit	Long Term	33.00	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	25.00	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
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	38.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE BBB Stable Assigned
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Assigned

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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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