

Press Release
LALWANI METALLICS PRIVATE LIMITED
October 25, 2023
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.20	ACUITE B+ Stable Reaffirmed	-
Bank Loan Ratings	7.55	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	8.75	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of 'ACUITE B+' (read as ACUITE B plus) and the short term rating of 'ACUITE A4' (read as ACUITE A four) on the Rs.8.75 crore bank facilities of Lalwani Metalics Private Limited (LMPL). The outlook is 'Stable'.

Rationale for Reaffirmation

The ratings reaffirmed factors in the experienced management and establish track record of operations. The rating also gets comfort from the moderate scale of operations of the company as reflected from its growing revenue. The revenue of the company increased to Rs.31.16 crore in FY2023 as compared to Rs.29.03 crore in FY2022. However, these strengths are partially offset by its below average financial risk profile, working capital intensive operations and strong Competitive pressure and inherent cyclical in the steel industry.

About the Company

Incorporated in 1994, Lalwani Metalics Private Limited (LMPL) is a Kolkata based company engaged in the trading of nickel cathodes, ferro silicon and other metals and alloys. LMPL is promoted by Mr. Sanjeev Lalwani, Mr. Kamal Kishore Lalwani and Mrs. Snehlata Lalwani.

Standalone (Unsupported) Rating

None

Analytical Approach

Acuite has considered the standalone business and financial risk profile of LMPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations with moderate scale of operations

LMPL, founded in 2004, boasts a strong 26-year history in the ferro alloys trading sector. The company's promoters, Mr. Sanjeev Lalwani, Mr. Kamal Kishore Lalwani, and Mrs. Snehlata Lalwani, bring over two decades of expertise in the trading operations of various metals and alloys. Acuite anticipates that the extensive operational history and seasoned management will uphold the business's risk profile over the medium term.

In FY2023, the company's revenue rose to Rs. 31.16Cr from Rs. 29.03 Cr in FY2022. However, the

operating profit margin declined to 5.31% in FY2023, down from 7.36% in FY2022, mainly due to increased raw material and other expenses. Despite this, the company achieved a positive net profitability margin of 3.88% in FY2023, a significant improvement from the negative margin in FY2022. In the FY 2022, tax arrears to the tune of Rs.3.97 Cr, resulted in net losses. Acuité believes that the company's profitability margin is expected to remain at similar levels over the medium term.

Weaknesses

- Below average financial risk profile

The company's financial risk profile is below average marked by net worth, low gearing and strong debt protection metrics. The tangible networth of the company stood at Rs.3.51 Cr as on March 31, 2023 from Rs.2.30 Cr as on March 31, 2022 due to accretion of reserves. The gearing of the company stood moderate at 0.31 times as on March 31, 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.60 times as on March 31, 2023. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 20.23 times as on March 31, 2023 and Debt Service Coverage Ratio at 15.41 times as on March 31, 2023. The Net Cash Accruals/Total Debt (NCA/TD) stood at 1.12 times as on March 31, 2023.

Acuité believes that going forward the financial risk profile of the company will remain at modest levels marked by low net worth, moderate gearing and comfortable debt protection metrics level over the medium term.

- Working capital intensive nature of operation

The working capital management of the company is intensive marked by high Gross Current Assets (GCA) of 145 days in 31st March 2023 as compared to 116 days in 31st March 2022. The GCA days is high primarily on account of high receivables. The debtors stood at 127 days in FY2023 compared to 87 days in FY2022. Further, the GCA days of the company has also emanates from the other current asset to the tune of Rs 0.41, which mainly consists of other receivables and recoveries. However, the inventory holding stood at 14 days in 31st March 2023 as compared to 23 days in 31st March 2022. Against this, the company has substantial dependence on its suppliers and creditors to support the working capital; creditors stood high at 101 days as on March 31, 2023. Acuité believes that the working capital operations of the company will remain at similar levels as evident from elongation in the receivable period, which will remain a key monitorable.

- Strong Competitive Pressure and inherent cyclicity in the steel sector

The steel sector continues to lack organization and cohesion. The company faces strong competitive forces from both organized and unorganized participants, compounded by the cyclicity inherent in the steel industry. Moreover, the government's emphasis on steel-intensive sectors like railways and infrastructure increases vulnerability; any prolonged drop in demand would negatively affect steel companies' performance. Furthermore, the fluctuation in prices of raw materials and goods is considerably unstable. The business also contends with rivalry from more affordable imports from Indonesia and China. A substantial rise in imports could detrimentally affect earnings and quantities, making this a crucial aspect to watch. Acuite believes that the company will remain exposed to competitive pressures and cyclicity inherent in steel industry over the medium term.

Rating Sensitivities

- Improvement in scale of operations while profitability parameters
- Deterioration in capital structure
- Elongation of working capital cycle

All Covenants

None

Liquidity Position

Stretched

The company's liquidity is stretched marked by low but steady net cash accruals of Rs.1.21 Cr as on March 31, 2023 as against nil debt repayment over the same period. The current ratio stood comfortable at 1.38 times as on March 31, 2023. Moreover, the working capital requirements of the Company remained intensive marked by high Gross Current Assets (GCA) of 145 days in 31st March 2023 as compared to 116 days in 31st March 2023 due to trading nature of operations.

Acuité believes that the company will continue to have stretched liquidity position owing to low cash accruals and long working capital cycle over the medium term.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on account of the extensive experience of the promoters. The outlook may be revised to 'Positive' if the company achieves substantial improvement in its scale of operations while improving profitability margins and improves its capital structure thus improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or weakening of financial risk profile leading to deterioration in liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	31.16	29.03
PAT	Rs. Cr.	1.21	(1.82)
PAT Margin	(%)	3.88	(6.28)
Total Debt/Tangible Net Worth	Times	0.31	0.01
PBDIT/Interest	Times	20.23	9.85

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>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Aug 2022	Bank Guarantee	Short Term	0.05	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	7.50	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	1.20	ACUITE B+ Stable (Reaffirmed)
12 Jul 2022	Letter of Credit	Short Term	7.50	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	1.20	ACUITE B+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.05	ACUITE A4 (Issuer not co-operating*)
26 Feb 2021	Bank Guarantee	Short Term	0.05	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	7.50	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	1.20	ACUITE B+ Stable (Reaffirmed)
08 Jul 2020	Letter of Credit	Short Term	7.50	ACUITE A4 (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.05	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	1.20	ACUITE B+ (Downgraded and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.05	ACUITE A4 Reaffirmed
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.20	ACUITE B+ Stable Reaffirmed
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE A4 Reaffirmed

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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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