



## Infomerics Valuation And Rating Pvt. Ltd.

### Press Release

### Laxcon Steels Limited

March 12, 2020

#### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1	Bank Facilities- Long Term	175.16	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)
2.	Bank Facilities- Short Term	90.00	IVR A1 (IVR A one)
	<b>Total</b>	<b>265.16</b>	

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of Laxcon Steels Limited derives comfort from its experience promoters with reputed clientele, diverse product portfolio and presence in export market, proximity with the sub processing units resulting into operational synergies, considerable growth in revenues over the years, strong net worth base and moderate gearing with healthy debt protection metrics. The rating strengths are partially offset by its susceptibility of operating margin to volatility in raw material prices and finished goods, exposure to foreign currency fluctuation risk and cyclicalities in the steel industry.

#### Key Rating Sensitivities

##### Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.
- Improvement in the capital structure and liquidity



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### **Downward factors**

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario, deterioration in operating cycle and/or overall gearing could lead to a negative rating action

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experience promoters with reputed clientele**

LSL was acquired by the Gopal group in 2002 and presently it is the flagship company of the group under the guidance of Mr. Gopal Swarup Gupta, who has a vast experience of over 21 years in the steel industry. The Gopal group was established in year 1978 and started its operations through trading of steel products. Longstanding presence of the promoters in the industry has helped the company to establish strong relationships with customers and suppliers, withstand industry cycles, diversify the product profile, and expand capacity.

##### **Diverse product portfolio and presence in export market**

LSL is an established player in the domestic stainless steel market. The product profile of the company is well-diversified and includes bright bars, precision shaft quality bars, continuous cast billets/blooms, forging quality ingots and angles for the engineering, infrastructure, automobile and utensils segments. Further, LSL has a well-diversified client base, reflected in the total income from top 10 customers which accounts to ~21% of total sales. Moreover, LSL does not have any regional dependency as company receives around 70%-80% revenue from the domestic market and rest from the exports to various foreign countries namely USA, Australia, Europe, Middle East and other countries.

##### **Proximity with the sub processing units resulting into operational synergies**

LSL has acquired the steel melting company - Metlax International Private Limited (MIPL) in FY19 located nearby within the distance of 10 km from steel manufacturing plant, leading to



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increase in capacity production and decrease in logistics costs. White bar manufacturing plant Ocean Steels Private Limited is located within the distance of 7 Km, leading to synergies in operations. Further, the operations are partially integrated with bulk of the processes undertaken in-house.

### **Considerable growth in revenues over the years**

LSL has recorded a sustained increase in the total income over the past fiscals on the back of gradual increase of high grade steel demand both in domestically and internationally. LSL has registered a CAGR of ~43% during FY17-FY19 with a healthy Y-o-Y growth of ~35% in FY19. Further, during 9MFY20, the company registered a PBT of Rs.28.99 crore on total operating income of Rs.783.54 crore. The EBITDA margin remained moderate in the range of 6.81%-8.75% during FY17-FY19. Despite the growth in operations the company has witnessed moderation in its EBIDTA margin mainly due to compromise in margins to attain high volume sales in a competitive operating spectrum. However, operating performance remained strong with healthy growth in absolute EBITDA from ~Rs.44 crore in FY17 to ~Rs.71 crore in FY19. Moreover, EBIDTA per ton of the company also improved sequentially from ~Rs.7600 per ton to ~Rs.9170 per ton in FY19. Further, the cash accruals also improved steadily from Rs.19.83 crore in FY17 to Rs.33.14 crore in FY19. Infomerics expects growth in LSL's total operating income in FY20 backed by its order book of Rs.324 crore as on January 31, 2020 which is to be executed within next 2-3 months.

### **Financial profile characterised by strong net worth base, moderate gearing with healthy debt protection metrics**

The financial risk profile of LSL is marked by its healthy net worth, moderate gearing with lower presence of long term debt in the capital structure and healthy debt protection metrics. The net worth stood healthy at Rs.165.05 crore as on March 31, 2019. To arrive at the net worth, Infomerics has considered Rs.14.41 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. Debt equity stood comfortable at 0.09



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times as on March 31, 2019 as compared to 0.08 times in as on March 31, 2018. The overall gearing ratio though improved from 1.60x as on March 31, 2018 to 1.32x as on March 31, 2019 remained moderate. Total indebtedness of the company as reflected by TOL/ANW also remained comfortable at 1.78x as on March 31, 2019 (improved from 2.16x as on March 31, 2018). The interest coverage ratio stood healthy at 2.86 times in FY19 though moderated from 3.28x in FY18 due to increase in interest expenses mainly on account of higher utilisation of working capital borrowings to support the elevated scale of operations. Total debt to GCA also remained moderate at 6.83 years in FY19 (8.49 years in FY18). The interest coverage continued to remain comfortable at 3.25x in 9MFY20. Going forward, Infomerics believes the financial risk profile of LSL to remain healthy on the back of expected improvement in its cash accruals.

### **Key Weaknesses**

#### **Susceptibility of operating margin to volatility in raw material prices and finished goods**

Since, the raw material is the major cost driver (constituting about 80% of total cost of sales in FY19) and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

#### **Foreign currency fluctuation risk**

LSL generates 20%-30% of its revenue from overseas which is about Rs.289.23 crore for FY19. On the other hand the company has imports around Rs.349.55 crore. Due to the presence of both exports and imports, there exists natural hedging. However, in absence of proper hedging policy the company is exposed to foreign currency fluctuation risk.

#### **Cyclicality in the steel industry**



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The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including LSL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity: Adequate**

LSL has generated a cash accruals of Rs.33.14 crore. The company is expected to generate cash accruals to the tune of ~Rs.43-54 crore during FY20-FY22 as against a repayment obligation of ~Rs.4-5 crore during the aforesaid period indicating an adequate liquidity position for the company. Further, company has reported average CC limit utilization for last twelve months ended December, 2019 at ~82%, indicating a moderate liquidity cushion.

### **About the Company**

Incorporated in year 1999, Laxcon Steels Limited (LSL) is a public limited company, located in Ahmedabad, engaged in manufacturing of stainless steel and alloy steel. LSL manufacture high quality stainless steel grades like Austenitic, Martensitic, Ferritic, Precipitation Hardening, among others and alloy steel billets, ingots, round bars, bright bars, angles and other products at its facility in Ahmedabad with a manufacturing capacity of 120000 MTPA. LSL caters to various sectors like, Automotive, Heavy Engineering, and Energy & Power and is a supplier of speciality steel to Ministry of defence and ISRO. Further, LSL is also accredited as two star export house from DGFT (Directorate General of Foreign Trade). LSL exports its products to various countries like USA, Australia, Europe and Middle East.



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### Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	773.14	1043.42
EBITDA	57.88	71.01
PAT	20.40	23.17
Total Debt	236.96	231.85
Tangible Net worth	128.37	150.64
EBITDA Margin (%)	7.49	6.81
PAT Margin (%)	2.64	2.22
Overall Gearing Ratio (x)	1.60	1.32

*^Unsecured loans from directors are subordinated from bank has been treated as equity, same has been reflected in the solvency ratios. Outstanding amount of unsecured loans reported by company as on March 31, 2019 is Rs.14.41 Cr. and as on March 31, 2018 is 11.89 Cr.*

\*Classification as per Infomerics' standards

### Status of non-cooperation with previous CRA: Nil

Any other information: Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	160.00	IVR A-/Stable	-	-	-
2.	Term Loan	Long Term	15.16	IVR A-/Stable			
3.	Bank Guarantee/ Letter of credit	Short Term	90.00	IVR A1	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).



## Infomerics Valuation And Rating Pvt. Ltd.

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.



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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities-Cash Credit	-	-	-	160.00	IVR A-/Stable
Long Term Bank Facilities-Term Loan	-	-	Dec ,2025	15.16	IVR A-/Stable
Short Term Bank Facilities-Bank Guarantee/Letter of credit	-	-	-	90.00	IVR A1