



Press Release

Laxcon Steels Limited

June 02, 2021

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings		Rating Action
Long Term Bank Facilities	171.18	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Long Term Bank Facilities	06.00	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	-	Assigned
Short Term Bank Facilities	90.00	IVR A1 (IVR A one)	IVR A1 (IVR A one)	Reaffirmed
Total	267.18 (Two hundred - sixty-seven crore and Eighteen lakh)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating to the bank facilities Laxcon Steels Limited is on account of consistency in operating performance in financial year in FY20 and FY21 (Provisional). 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, financial profile characterised by strong net worth base coupled with improvement in capital structure and Improvement in profitability coupled with comfortable debt coverage parameters. 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

- substantial improvement in scale of operations with sustainability in margins



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- Improvement in capital structure

Downward Factors

- Significant dip in operating income and/or profitability thereby impacting the debt coverage indicators 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. Over the years the company has been able to make global presence with the client presence in various countries namely USA, Middle East region, Australia and other countries. LSL caters to high grade steel demand of various reputed clientele namely Bharat Heavy Electricals Limited, Felix Technology, Reliance Industries Limited, Suncity Metal Pvt. Ltd. and others.

- **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 ~20% 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 increase in capacity production and decrease in logistics costs. White bar manufacturing



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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.

- **Financial profile characterised by strong net worth base coupled with improvement in capital structure**

LSL has reported comfortable net worth at Rs. 216.84 crore as on March 31, 2021 (Prov.) against Rs. 182.59 crore as on March 31, 2020. Overall gearing for the company stood at 1.11 x as on March 31, 2021 (Prov.) against 1.35x as on March 31, 2020. Total indebtedness represented by TOL/TNW stood at 1.51x as on March 31, 2021 (Prov.) against 1.73x as on March 31, 2020.

- **Improvement in profitability coupled with comfortable debt coverage parameters**

LSL has reported improvement in margins over last three years with EBITDA margins at 8.06% in FY21 improved from 6.49% in FY20 (7.08% in FY19). PAT margins are also reported with improvement from 2.23% in FY18 to 3.59% in FY21. Company has established its position into high grade steel manufacturing with state-of-the-art manufacturing facilities installed, which has led to secure better EBITDA/Ton over last three years. Interest coverage ratio for the company stood at 3.85x as on March 31, 2021 (Prov.) against 3.45x as on March 31, 2020.

Key Rating 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**



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LSL generates 20%-30% of its revenue from overseas which is about Rs. 332.71 crore for FY21. On the other hand the company has imports around Rs. 315.80 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. The unhedged amount of foreign currency exposure is Rs.18 crore as on March 31, 2021.

- **Cyclicality in the steel industry**

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 accrual of Rs. 45.76 crore in FY21 (Prov.) against the debt repayment obligations of Rs. 5.34 crore. Further, LSL liquidity position is adequate marked by sufficient cushion in expected accruals vis-à-vis its repayment obligations in FY22. Average Utilization of bank limits for last 12 months ended at February stood at 88% indicating a minimal buffer to meet incremental requirements. Further, company has reported adequate current ratio at 1.49x as on March 31, 2021 to meet its near-term cash requirements. All the factors reflects the liquidity position of the company is adequate.

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,



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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.

Financials (Standalone):

(Rs. Crore)

For the year ended*	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	971.61	1050.00
EBITDA	78.28	86.83
PAT	34.98	39.50
Total Debt	241.17	257.50
Tangible Net worth	216.84	253.60
EBITDA Margin (%)	8.06	8.27
PAT Margin (%)	3.59	3.76
Overall Gearing Ratio (x)	1.11	1.02

Status of non-cooperation with previous CRA: Issuer not cooperating by Acuite Ratings and Research, vide press release dated March 23, 2021 due to non-availability of information.

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash credit	Long Term	160.00	IVR A-/Stable	-	IVR A-/Stable (March 23, 2020)	-
2.	Term loan	Long Term	11.18	IVR A-/Stable	-	IVR A-/Stable	-



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
						(March 23, 2020)	
3.	CCECL	Long Term	06.00	IVR A- /Stable	-	-	-
4.	LC/BG	Short Term	90.00	IVR A1	-	IVR A1 (March 23, 2020)	-

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.

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About Infomerics:

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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.

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	-	-	Revolving	160.00	IVR A-/Stable
Long Term Bank Facilities- Term Loan	-	-	Dec, 2025	11.18	IVR A-/Stable
Long Term Bank Facilities- CCECL	-	-	June, 2022	06.00	IVR A-/Stable
Short Term Bank Facilities- LC/BG	-	-	Revolving	90.00	IVR A1

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lender-Laxcon-Steels-Limitet-02-jun-21.pdf>