



Press Release

Laxcon Steels Limited August 30, 2022

Ratings:

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	167.25	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	90.00	IVR A1 (IVR A One)	Reaffirmed	Simple
Total	257.25 (Rupees Two hundred fifty-seven crore and twenty five lakh only)			

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 FY21 and FY22 (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 and financial profile characterised by strong net worth base coupled with improvement in capital structure. The rating strengths are partially offset by its profitability coupled with comfortable debt coverage parameters, susceptibility of operating margin to volatility in raw material prices and finished goods, exposure to foreign currency fluctuation risk and cyclical in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in the total operating income by more than 10%.
- Sustained improvement in EBITDA margin above 8%
- Significant improvement in debt protection parameters and liquidity position of the firm



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Downward Factors

- Any decline in scale of operations leading to deterioration in debt protection metrics
- Any major debt funded capex undertaken by the firm leading to deterioration in the capital structure and/ or liquidity position.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced Promoters with reputed clientele

LSL was acquired by the Gopal group in 2002 and presently it is the flagship company of the group. Its main promoter is Mr. Gopal Swarup Gupta, who has a vast experience of over 21 years in the steel industry. Longstanding presence of the promoters in the industry has helped the company to establish strong relationships with customers and suppliers Over the years. the company has been able to make global presence with the client presence in various countries namely USA, Korea, Europe, Japan, Taiwan and other countries. LSL caters to high grade steel demand of various reputed clientele namely Bharat Heavy Electricals Limited, Welspun Speciality, 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, with around 20% of the total operating income coming from top 5 customers. Moreover, LSL does not have any regional dependency as the company receives around 60%-70% revenue from the domestic market and rest from the exports to various foreign countries namely USA, Korea, Europe, Japan, Taiwan 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 FY2019 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 plant of 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.



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

LSL has reported comfortable net worth at Rs.233.97 crore as on March 31, 2021 as against Rs.182.59 crore as on March 31, 2020, which further increased to Rs.301.96 crore as on March 31, 2022 (Prov.). The company's overall gearing stood at 1.35x in FY20 as against 1.03x as on March 31, 2021, and it further improved to 0.78x as on March 31, 2022 (Prov.) on account of debt repayment. Total indebtedness represented by TOL/TNW stood at 1.21x as on March 31, 2022 (Prov.) against 1.43x as on March 31, 2021, and 1.73x in FY20.

Improvement in profitability coupled with comfortable debt coverage parameters

The total operating income remained almost stable at Rs.971.46 crore in FY21 as against Rs.1004.16 crore in FY20. It improved substantially to Rs.1557.03 crore in FY22 (Prov.) due to increase in the quantity sold, as well as improvement in the per unit realisation for some of the products. There is an improvement in the EBITDA margin to 10.41% in FY21 as against 7.38% in FY20 due to better realisations. Although there is a decline in EBITDA margin from 10.41% in FY21 to 8.01% in FY22 (Prov.), the absolute EBITDA has improved from Rs.101.17 crore in FY21 to Rs.124.77 crore in FY22 (Prov.). In line with this, the PAT has improved from Rs.52.18 crore in FY21 to Rs. 69.42 crore in FY22 (Prov.), while the GCA improved from Rs.63.05 crore in FY21 to Rs.86.78 crore in FY22 (Prov.). The 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 three years FY19-FY21.

Interest coverage ratio for the company stood at 4.26x as on March 31, 2021, as against 3.02x in FY20 which further improved to 7.30x as on March 31, 2022 (Prov.) due to the reduction in the interest cost following the debt repayment. With improvement in the GCA levels, the Total debt to GCA ratio also improved from 3.83x in FY21 to 2.71x in FY22(Prov.).

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 around 75% of total cost of sales in FY22(Prov.)) 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. Accordingly, its debt protection metrics also continued to remain moderate with interest coverage and total debt/ GCA ratios of 2.96x and



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7.63x respectively in FY22 (Prov.) as against 1.92x and 10.02x respectively in FY21 and 2.03x and 9.27x respectively in FY20.

Foreign currency fluctuation risk

LSL generates 30%-40% of its revenue from overseas which is about Rs. 301.04 crore for FY2021 and Rs.616.19 crore in FY2022 (Prov.). Further, the company generally imports around 50% of its raw material requirement. Due to the presence of both exports and imports, there exists some amount of natural hedging. The company does not have any hedging policy. The unhedged amount of foreign currency exposure was Rs.24.67crore as on March 31, 2022.

Cyclicality in the steel industry

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:

[Criteria of Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity – Adequate

The liquidity of the company remains adequate marked by the sufficient cash accruals as against the long-term debt repayment obligations. The unencumbered cash and cash equivalent was Rs.8.86 crore as on March 31, 2021, and Rs.22.14 crore as on March 31, 2022. Its average maximum fund based working capital utilization for the 12 months ended March 2022 stood around 86.72%. Although its operating cycle elongated from 110 days in FY20 to 141 days in FY21 due to covid-19, it has improved to 96 days in FY22 (Provisional). With the capex and repayment obligations likely to be low as against the envisaged cash accruals, the liquidity is expected to remain adequate in the medium term.



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About the Company:

Incorporated in 1999, LSL was acquired by the Delhi-based Gopal group in February 2002. Longstanding presence has helped the promoters establish strong relationships with customers and suppliers. LSL is a prominent player in the domestic stainless-steel market. The product profile 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. The company's manufacturing plant is situated at Ahmedabad. The certified installed capacity of the plant is 1,20,000 MTPA. Presently, LSL is manufacturing steel through Induction Furnace, Argon Oxygen Decarburization (AOD), VD/VOD, LRF Bottom pouring pit / con-cast with EMS route. LSL has also installed rolling mill of 20" large size, 12" small rolling, Gas storage facilities (Nitrogen, Argon, Oxygen). The company has developed forging quality ingots up to 14.5 tons and capable to produce round billets in sizes of 150-mm and 250-mm

Financials Standalone

For the year ended/ As On	31-03-2020	31-03-2021	(Rs. crore) 31-03-2022
	(Audited)	(Audited)	(Provisional)
Total Operating Income	1004.16	971.46	1557.03
EBITDA	74.14	101.17	124.77
PAT	36.08	52.17	69.41
Total Debt	247.27	241.25	234.78
Tangible Net-worth	182.59	233.97	301.96
Ratios			
EBITDA Margin (%)	7.38	10.41	8.01
PAT Margin (%)	3.58	5.35	4.45
Overall Gearing Ratio (x)	1.35	1.03	0.78

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable



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Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (June 2, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (March 23, 2020)
1.	Term Loan	Long Term	7.25	IVR A- /Stable	IVR A- /Stable	-	IVR A- /Stable
2.	Cash Credit	Long Term	160.00	IVR A- /Stable	IVR A- /Stable	-	IVR A- /Stable
3.	LC/ BG	Short Term	90.00	IVR A1	IVR A1	-	IVR A1

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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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 Facilities – Term Loan	--	--	November 2023	7.25	IVR A-/ Stable
Long Term Facilities – Cash Credit	--	--	--	160.00	IVR A-/ Stable
Short Term Facilities – LC/BG	--	--	--	90.00	IVR A1

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Laxcon-Steels-aug22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 <https://www.infomerics.com/>.