Lall Steels Private Limited

January 04, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	9.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	6.00	CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable/A Four)	Assigned
Total Bank Facilities	**15.00 (₹ Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Lall Steels Private Limited (LSPL) is constrained by small scale of operations coupled with moderation witnessed in scale of operations in FY21 & FY22 with low profitability margins albeit some improvement witnessed in H1FY23, project implementation risk, cyclicality associated with the steel industry, susceptibility of profitability to volatility in raw material prices, working capital intensive nature of operations coupled with elongation in collection period, intense competition due to fragmented nature of the industry and leveraged capital structure post drawdown of debt for the ongoing project. The rating however derive comfort from experienced promoters with satisfactory track record of operations and favourable locational advantage.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Timely implementation of the capex within envisaged timelines and deriving benefits from the same.
- Increase in scale of operations of over Rs.100 crores while improving PBIDT margins to 5% on a sustained basis.
- Improvement in collection period to below 75 days on sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any further elongation in collection from current levels.
- Deterioration in overall gearing ratio above 1.50x on sustained basis

Detailed description of the key rating drivers

Key rating weaknesses

Small scale of operations

LSPL is a relatively small player with an installed capacity of 11,000 MTPA for M S Ingot/Billet and 15,000 MTPA for MS Bars) in comparison to other players operating in this industry. The small size deprives it from the benefits of economies of scale and restricts the financial flexibility of the company in times of stress. The company is setting up billet capacity of 33,000 MTPA with Continuous Casting Method (CCM) and enhancing TMT rebar capacity from 15,000 MTPA to 60,000 MTPA. The company plans to stop producing ingots post start of CCM as the cost under hot charging of billets are lower than producing and reheating ingots making it more cost competitive. This is expected to both increase scale of operations and improve profitability margins.

Moderation witnessed in scale of operations in FY21 & FY22 with low profitability margins albeit some improvement witnessed in H1FY23

TOI of LSPL declined from Rs.98.45 crore in FY20 to Rs.69.83 crore in FY21 and further to Rs.35.60 crores in FY22 due to impact of Covid-19 coupled with lower cost competitiveness of the company's plant which was set up in 1994. As a result, PBILDT margins remained low and rangebound between 2-4%. In line with PBILDT margin, PAT margin remained low. During H1FY23, the company booked TOI of around Rs. 31.65 crores.

Project implementation risk

The company is setting up billet capacity of 33,000 MTPA with Continuous Casting Method (CCM) and enhancing TMT rebar capacity from 15,000 MTPA to 60,000 MTPA at an estimated cost of Rs. 13 crores funded through term debt of Rs.5 crore and

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

balance through unsecured loan of Rs.8 crore. Financial closure has been achieved. Majority of cost has been incurred and project is expected to become operational from Q4FY23. The company plans to stop producing ingots post start of CCM as the cost under hot charging of billets are lower than producing and reheating ingots. This will result in saving in power & fuel cost in billet production and lower wastage in TMT rebars.

The company has already spent around Rs. 4.15 crores on the CCM and advances for capital goods is Rs. 2.01 crores as on September 30, 2022. Although the project will be fully implemented by Q4FY23, however, the ability of the company to commence its enhanced capacity and generate the envisaged benefits therefrom shall remain a rating sensitivity.

Cyclicality associated with the steel industry

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital- intensive nature of steel projects along-with the inordinate delays in the completion impact the responsiveness of supply side to demand movements. Furthermore, the producers of finished steel & related products like DISL are essentially price-takers in the market (i.e., their fortune depends upon the construction industry), which directly expose their cash flows and profitability to the volatility of the end user industry.

Susceptibility of profitability to volatility in raw material prices

The company does not have backward integration for its basic raw-materials (pig iron, coal, sponge iron) and it procures the same from open market at spot prices. Moreover, the company often purchases billets for its MS Bars production currently rather than producing the same due to lower cost competitiveness. Since the raw-material is the major cost driver accounting for roughly ~81% of total cost of sales in FY22 and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices.

Working capital intensive nature of operations coupled with elongation in collection period

The operations of LSPL is working capital intensive in nature as the company allows credit of around three to four months to its customers and maintains inventory of around two to three months for timely supply to its customers. Moreover, it avails credit of around one month from its suppliers.

The company’s working capital cycle has elongated due to elongation of average collection period from 71 days in FY21 to 143 days in FY22 due to both dip in total operating income and increase in receivables.

Leveraged Capital Structure

The capital structure is marked by overall gearing of 0.50x as on March 31, 2022. The same is expected to moderate owing to availment of term loan of Rs. 5 crores and incremental unsecured loan of Rs.4 crore from promoters for setting up billet capacity and expansion of TMT rebars capacity. Thus, overall gearing is expected to moderate to 1.28x as on Mar 31, 2023. The company has outstanding debtors (more than 6 months) of around Rs. 6.78 crores as on March 31, 2022 (Rs. 6.22 crores on March 31, 2021, Rs. 7.35 crores as on March 31, 2020 and Rs. 2.26 crores as on March 31, 2019). Receivables o/s for more than 6 months has increased during FY20 as the company had to give extended credit period to its customers. However, the same has remained at similar levels and has not increased further. Nevertheless, after adjusting the above outstanding dues, the adjusted overall gearing for FY22 stands at 0.74x.

Intense competition due to fragmented nature of the industry

The company is engaged in the manufacturing of Billets and MS Bars which is primarily dominated by large players and characterized by high fragmentation and competition due to the presence of numerous players in India owing to relatively low entry barriers. High competitive pressure limits the pricing flexibility of the industry participants which induces pressure on profitability.

Key rating strengths

Experienced promoters with satisfactory track record of operations

LSPL is into manufacturing of iron and steel products since 1994 and thus have 24 years of track record of operations. Being in the same line of business since long period, the promoters have built up established relationship with its clients and the company is deriving benefits out of this. The key promoter, Mr. Jai Prakash Lal (aged, 60 years) has 28 years of experience in iron and steel industry, looks after the day to day operations of the company. He is supported by other directors who also possess long experience in iron and steel industry.

Favourable locational advantage

The plant location is favourable in terms of readily availability of raw materials, like sponge iron, pig iron etc. Since, the states like Bihar, Jharkhand and Odisha are enriched with iron ore, the steel industry has been flourishing in the region which ensures the abundant supply of aforesaid raw materials in the vicinity resulting in cheaper transportation cost.

Liquidity analysis - Stretched

Liquidity is stretched on account of negative cash flow from operations resulting from substantial increase in working capital during FY21 and FY22. The collection period stretched from 71 days to 143 days due to both dip in total operating income and increase in debtor levels. However, the company has nil debt repayment obligation in FY23 and Rs.0.41 crore repayment obligation in FY24 which would be met entirely out of cash accruals. Average utilization of fund based working capital limits of the company stood at 60% during last 2 months ended Dec'22 (disbursed in Oct 2022).

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Iron and Steel

About the company

Incorporated in October 1994, Lall Steels Private Limited (LSPL) is promoted by Mr. Jai Prakash Lal, Mr. Vijay Kumar Lal and Mr. Sanjay Kumar based out of Giridih, Jharkhand. Since its inception, the company has been engaged in manufacturing of MS ingots and TMT bars at its plant located at Giridih, Jharkhand with an aggregate installed capacity of 11,000 MTPA and 15,000 MTPA of MS ingot and TMT rebars. The day to day operations of the company are managed by Mr. Jai Prakash Lal and Mr. Vijay Kumar Lal who have more than two decades of experience in the iron & steel industry. The company sells its products through 150 dealers and 4 distributors in Jharkhand & Bihar under the brand name of ''Lall TMT".

The company is setting up billet capacity of 33,000 MTPA with Continuous Casting Method (CCM) and enhancing TMT rebar capacity from 15,000 MTPA to 60,000 MTPA at an estimated cost of Rs. 13 crores funded through term debt of Rs.5 crore and balance through unsecured loan of Rs.8 crore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	69.83	35.60	31.65
PBILDT	1.55	1.31	NA
PAT	0.01	0.01	NA
Overall gearing (times)	0.38	0.50	NA
Interest coverage (times)	16.02	18.29	NA

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE BB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	6.00	CARE BB-; Stable / CARE A4
Term Loan-Long Term		-	-	September, 2028	5.00	CARE BB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (30-Jan-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (30-Jan-20)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	-	1)Withdrawn (30-Jan-20)
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	6.00	CARE BB-; Stable / CARE A4				
5	Term Loan-Long Term	LT	5.00	CARE BB-; Stable				
6	Fund-based - LT-Cash Credit	LT	4.00	CARE BB-; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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