Manaksia Steels Limited

July 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	37.00 (Reduced from 50.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	203.00 (Enhanced from 190.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**240.00** **(Rs. Two Hundred Forty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manaksia Steels Limited (MSL) continues to draw strength from long experience of promoters in steel industry, strategic location of the plant, stable operational parameters and satisfactory financial risk profile as indicated in comfortable capital structure and adequate liquidity. The rating also takes note of improvement in financial performance in FY21 (refers to period April 01 to March 31) with focus on increasing manufacturing turnover which have led to improvement in profitability. The rating, however, is constrained by small scale of operations, client concentration risk, profitability susceptible to volatility in raw material prices, exposure to foreign exchange fluctuation risk and cyclicality associated with the steel industry.

Rating Sensitivities

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

- Increase in scale of operations beyond Rs.550 crore and profitability margin beyond 9% on a sustained basis.
- Sustenance of capital structure and debt protection metrics.

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

- Decline in scale of operations below Rs 400 crore and operating profitability below 5% on a sustained basis.
- Deterioration in overall gearing and TD/GCA beyond 0.80x and 5x respectively.
- Decline in liquidity (i.e. free cash and liquid investments) below Rs. 50 crores.
- Worsening of operating cycle beyond 60 days.

Detailed description of the key rating drivers

Key Rating Strengths

Long experience of promoters in steel industry

MSL is promoted by Mr. Suresh Kumar Agrawal & family. Mr. Suresh Kumar Agrawal (Chemical Engineer) has an experience of about four decades in steel manufacturing industry. Mr. Varun Agrawal (B.Com and son of Mr. S. K. Agarwal) looks after the day-to-day affairs of the company along with the support of experienced professionals.

Strategic location of the plant

In manufacturing of steel products, freight cost constitutes a significant portion as large amount of bulky raw material is required to be sourced to the manufacturing site. The company needs to procure HR coils and Zinc from both domestic and overseas supplier. The proximity of the plant to Haldia port area helps the company to save logistics cost.

Satisfactory financial risk profile

Overall gearing remained comfortable at 0.29x as on Mar 31, 2021 as against 0.39x as on Mar 31, 2020. TD/GCA has improved significantly from 4.81x in FY20 to 2.51x in FY21 in view of higher GCA. The financial risk profile is expected to remain comfortable going forward.

Improvement in financial performance in FY21 with stable operational parameters

The combined capacity utilization of the manufacturing facilities (steel cold rolling, galvanizing and color coating) has improved from 36% in FY20 to 44% in FY21. The total operating income of MSL declined y-o-y by ~20% mainly on account of decline in trading sales to Nigeria. However, PBILDT margin has substantially improved from 3.47% in FY20 to 7.15% in FY21 on account of higher sales realisation coupled with significant increase in manufacturing sales which command higher margins. Interest coverage has also improved significantly from 10.75x in FY20 to 24.36x in FY21. The company reported GCA of Rs.25.61 crore vis-à-vis nil debt repayment. Going forward, the company is expected to ramp up its business operations and continue to maintain its margins at around the current levels.

Key Rating Weaknesses

Small scale of operations

MSL operates on a relatively small scale as compared to players operating in this industry, with income from operations and total capital employed of Rs.387.96 crore and Rs.226.10 crore respectively in FY21 (Rs.487.80 crore and Rs.199.01 crore in FY20).

Client concentration risk

The domestic customer base remained concentrated with top 9 customers constituting ~59% of the domestic sales in FY21 (~57% in FY20). MSL's export revenue is mainly driven by supply of HR Coils to its group company based in Nigeria. However, in FY21, its share of turnover to Nigeria has significantly reduced to 18% of total sales (51% in FY20) on account of company's focus on decreasing trading sales to Nigeria.

Profitability susceptible to volatility in the prices of raw materials

Raw material expense is the major cost driver for MSL. The major raw materials are HR Coils, Zinc & Galvalume. The prices of raw-materials are highly volatile in nature due to commodity nature of product, whose prices are determined based on global demand & supply. Given the volatility in raw material prices & lack of backward integration, the profitability of the company is susceptible to fluctuation in raw material prices.

Exposure to foreign exchange fluctuation risk

MSL imports ~43% of its raw material/trading requirement mainly from Japan. This apart, MSL derives a proportion of its revenue (i.e. 20% of total revenue in FY21 vis-à-vis 50% of total revenue in FY20) through exports to its group company based in Nigeria.

As the trading activity is high-sea sales, the forex receivables and payables are set off to that extent. Thus, the company is exposed to foreign exchange fluctuation risk to the extent of raw materials imported (majorly HR coils) for the purpose of domestic manufacturing sales. MSL generally hedges it forex exposure through forward cover and the company reported forex gain of Rs.1.42 crore in FY21 vis-à-vis forex loss of Rs.2.52 crore in FY20.

Cyclicality associated with the steel industry

Steel is a cyclical industry, strongly correlated to economic cycles since its key users i.e., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Fall in demand in any of these sectors directly impacts the demand of steel products. 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.

Industry Outlook

India's production of crude steel and finished steel fell by 5.9% to 103 million tonnes and 7.3% to 95.1 million tonnes in FY21, impacted by the Covid-19 pandemic which hampered production mainly in Q1FY21. However, the domestic steel industry made a quick recovery in H2FY21 on the back of higher international steel demand and revival in domestic demand. H2FY21 saw an unprecedented rally in domestic steel prices which is expected to continue in FY22 as well. The up-cycle in domestic steel prices is supported by the bullish trend in global steel prices and revival in domestic demand.

In FY22, crude steel production is expected to grow by 9-11% y-o-y. Steel demand will be supported by economic recovery, government spending and enhanced liquidity. The Union budget for FY22 has a sharp 34.5% y-o-y increase in allocation for capex. The budget's thrust is on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, and roads, transport and highways would provide impetus to steel consumption which is expected to grow by 10-12% in FY22.

Liquidity: Adequate

The company's liquidity position is adequate characterized with gross cash accruals of Rs.25.61 crore in FY21 vis-à-vis nil term debt repayment obligations and nil average utilization of its working capital limits (sanctioned CC limits of Rs.37 crore) over the last 11 months ended April, 2021. As on March 31, 2021, the company has total cash and liquid investments of Rs.106.29 crore (Rs.50.27 crore as on March 31, 2020) and free cash and liquid investments of Rs.92.21 crore.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing Companies
Rating Methodology - Steel Companies
Criteria for Short Term Instruments

About the Company

Manaksia Steels Limited (MSL) was incorporated on June 07, 2001 by Kolkata based Mr. Suresh Kumar Agrawal & family. It was a dormant company till October 01, 2013 before the demerger of steel division of Manaksia Ltd. (ML) to MSL. MSL is engaged in manufacturing of cold rolled sheets, galvanized plain & corrugated sheets and colour coated sheets. The company has a manufacturing capacity of 84,000 metric tonne per annum (MTPA) for steel cold rolling products, 36,000 MTPA for galvanizing sheets and 24,000 MTPA for colour coating sheets at Haldia and 30,000 MTPA galvanizing plant at Bankura.

Brief Financials (Rs. Crore)	FY20 (A)	FY21 (Abridged)
Total Operating Income	487.80	387.96
PBILDT	16.93	27.73
PAT	8.70	19.68
Overall gearing (times)	0.39	0.29
Interest coverage (times)	10.75	24.36

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	37.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	203.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	37.00	CARE A-; Stable	-	1)CARE A-; Stable (11-Sep-20)	1)CARE A; Negative (19-Nov-19) 2)CARE A; Stable (28-Jun-19)	1)CARE A; Stable (06-Jul-18)
2.	Non-fund-based - ST-BG/LC	ST	203.00	CARE A2+	-	1)CARE A2+ (11-Sep-20)	1)CARE A1 (19-Nov-19) 2)CARE A1 (28-Jun-19)	1)CARE A1 (06-Jul-18)
3.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (28-Jun-19)	1)CARE A1 (06-Jul-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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

Contact us

Media Contact
Name- Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Ishan Marda
Group Head Contact no.- 033-4018 1604
Group Head Email ID- arindam.saha@careratings.com

Relationship Contact
Name: Lalit Sikaria
Contact no.: 033 4018 1607
Email ID: lalit.sikaria@careratings.com

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