

Newmalayalam Steel Private Limited (Revised)

January 12, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	43.08	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Short-term bank facilities	12.92	CARE A4+ (A Four Plus)	Assigned
Total bank facilities	56.00 (₹ Fifty-six crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Newmalayalam Steel Private limited (NSPL) are constrained by the modest scale of operations, commodity nature of business with thin operating margins, moderately leveraged capital structure, and cyclical nature of steel industry.

The ratings, however, continue to draw strength from the vast experience and longstanding presence of the promoters in the steel Industry, NSPL's established relationship with the customers and suppliers and the company's partially integrated manufacturing setup.

Rating sensitivities

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

- Consistent scaling up of volumes by diversifying geographical presence.
- Sustainable improvement in the operating margins by upwards of 5%.
- Improvement in overall gearing below 1.50x

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

- Consistent decline in the operating margins below 3%
- Any debt- funded capital expenditure leading to deterioration in the overall gearing beyond 2x

Detailed description of the key rating drivers

Key rating weaknesses

Modest scale of operations and dip in the operating performance during FY22: NSPL is engaged in the manufacturing of galvanized Pipes and Sheets from the galvanized Coils. The overall scale of operations has remained modest in the range of Rs. 200-300 crore in the past four years. Sales volumes witnessed a de-growth of 27% during FY22 on account of lower capacity utilisations. The total operating income (TOI) though remained stable, largely driven by improvement in sales realisations which increased by more than 50% during FY22. During 7MFY23, the company has reported improved TOI at around ₹190 crore.

Moderately leveraged capital structure: The capital structure of the company stood moderately leveraged, with an overall gearing of 1.63x as on March 31, 2022. The debt largely comprises working capital limits, Guaranteed Emergency Credit Line (GECL) loans and term loans. The interest coverage ratio of the company stood comfortable, at 4.80x during FY22 (PY: 4.14x). The total debt to gross cash accruals (TD/GCA) stood moderate at 5.98x as on March 31, 2022. CARE Ratings Limited (CARE Ratings) expects the capital structure to remain moderate in the near term.

Thin profit margins susceptible to price volatility risk: The profitability of the company is susceptible to the sharp volatility in the raw material prices of galvanized steel, which constitute almost 90-93% of the raw material cost. Margins have inherently remained thin between 4-4.5%. The cyclical nature of the industry keeps the raw material prices highly volatile and the company's ability to pass on the same to end customers is highly key to maintaining stable margins amid the intense competition. With limited integration and value addition, the margins are expected to remain at similar levels going forward.

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

Geographical concentration risk and fragmented industry: The steel industry is cyclical in nature, as the demand for steel products is dependent on the fortune of the state of the economy. The industry is sensitive to shifting business cycles, including changes in the general economy, interest rates, and seasonal changes in the demand and supply conditions in the market. Furthermore, the operations of the company are largely confined to Kerala, which also keeps the operations geographically exposed.

Key rating strengths

Extensive experience of the promoters in the steel business: NSPL started its operations in the year 2017 by Mr. V.D Varghese and Mr. Mahendra Kumar Jain who are the current promoters heading the company. Mr. Mahendra Kumar Jain has more than four decades of experience in the steel pipe and tube trading and manufacturing Industry. Apart from steel tubes, Mr Jain deals with other steel products such as TMT, Angles, Channels, Stainless Steel, and Colour Coated Coils etc. Promoters have supported the operations in the past by infusing unsecured loans and are expected to extend the support in case of future requirements.

Established customer and supplier base in domestic market: NSPL carries out its sales to established institutional customer base in Kerala and nearby regions of Tamil Nadu. The company has been doing regular business with the established clientele and has developed a long-term relationship with them. NSPL is one of the few galvanized pipes manufacturing companies in Kerala and supplies quality products under "Demac" brand at competitive prices. For the procurement of galvanized steel coils and sheets, NSPL places advance orders with its established supplier base in the domestic market. Established relationship with the suppliers ensures timely supply of raw material for its operations.

Partially integrated operations: The operations of the company are partially integrated, with NSPL procuring the galvanized steel coils from the domestic suppliers which is then converted in to pipes and sheets at the company's manufacturing facility at Mala, Thrissur, Kerala. The facility is equipped with three production lines with a total capacity of 90,000 MT per annum. The facility is ISO 9001:2015 certified along with ISI certification for all the products.

Liquidity: Stretched

The liquidity of the company is stretched characterised by high working capital utilisations and modest cushion in accruals vis-à-vis repayment obligations of ₹5.04 crores in FY23. The cash balance of the company stood modest at Rs.3 lakh as on March 31, 2022. The maximum working capital utilisation of limits stood moderate at 85-90% for twelve months ended October 2022 supported by an above unity current ratio.

Industry outlook:

The iron and steel pipe industry is one of the key sectors in the infrastructure development of India. From the extension of pipelines for river interlinking to providing drinking water to every household, the industry plays a critical role in the development of the country. The major growth drivers for the industry include demand emanating from domestic water infrastructure, oil exploration and transportation, construction, irrigation, infrastructure, and expansion of gas pipelines such as the national gas grid and city gas distribution. The Union Budget 2022-23 has seen an increase of 36% y-o-y in the allocation of the capex, at ₹7.5 lakh crore. The allocation for various schemes like the Pradhan Mantri Awas Yojana (PMAY) and the Jal Jeevan Mission are expected to have a positive impact on the industry, going forward.

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](#)
[Steel](#)

About the company

NSPL was incorporated in 2017 and is involved in the manufacturing of galvanised pipes and sheets with a capacity of 90,000 tonne per annum. Currently, V.D Varghese is heading the company and is supported by Mahendra Kumar Jain who has more than four decades of experience in the iron, steel, and aluminium industry. He is also associated with other entities, which operate in similar activities. The day-to-day activities of the company are supervised by V.D Varghese, and the strategic decisions are taken by Mahendra Kumar Jain.

Brief Standalone Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	304.40	323.68	169.06
PBILD	13.67	12.85	NA
PAT	7.63	6.73	NA
Overall gearing (times)	1.55	1.63	NA
Interest coverage (times)	4.14	4.80	NA

A: Audited; UA: Unaudited; NA: Not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the 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		-	-	-	27.00	CARE BB+; Stable
Fund-based - LT-Term loan		-	-	June 2027	16.08	CARE BB+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	12.92	CARE A4+

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	16.08	CARE BB+; Stable				
2	Fund-based - LT-Cash credit	LT	27.00	CARE BB+; Stable				
3	Non-fund-based - ST-Letter of credit	ST	12.92	CARE A4+				

*Long term/short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on the 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.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Swathi Subramanian
Phone: 9444234834
E-mail: swathi.subramanian@careedge.in

Relationship contact

Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

About us:

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