Manaksia Steels Limited
July 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	37.00	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	203.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of rating for the bank facilities of Manaksia Steels Limited (MSL) takes into account the improvement in financial performance of the company in FY23 (refers to period April 01 to March 31) marked by increased operating income albeit moderation in profitability margins.
The rating further continues to draw strength from long experience of the promoters in steel industry, strategic location of the plant, comfortable financial risk profile and favourable industry outlook. The rating is, however, constrained by large size capex for enhancing its production capacity and to introduce new product called Galvalume/Alu Zinc, small scale of operations, geographical and client concentration risk, low capacity utilization albeit improvement in colour coating plant, profitability susceptible to volatility in the prices of raw materials, exposure to foreign exchange fluctuation risk and cyclicality associated with the steel industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations beyond Rs. 750 crores led by increase in volumes, and profitability margin beyond 8% on a sustained basis.
- Sustenance of capital structure and debt protection metrics.

Negative factors

- 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 0.35x and 5x respectively on a sustained basis
- Worsening of operating cycle beyond 75-80 days on a sustained basis

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the ability of the entity to sustain healthy operating performance and profitability over the near medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced Promoters

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.

Comfortable capital structure and debt protection metrics

Capital structure of the company remained comfortable although slightly moderated with gearing levels at 0.16x as on March 31, 2023 as compared to 0.03x as on March 31, 2022, majorly owing to availment of buyer's credit for import of raw materials. The usage of buyer's credit was negligible in previous fiscal due to higher usage of domestic raw materials which was preferred owing to geo-political issues including Russia- Ukraine war leading to higher lead time for imports.

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

Debt protection metrics, though moderated slightly, has been comfortable with TD/GCA and interest coverage at 2.50x and 6.91x for FY23, as against 0.24x and 48.02x for FY22 respectively. The moderation has been due to lower margin level coupled with higher debt level on account of availment of buyer's credit.

Increased scale of operations in FY23 albeit moderation in profitability margins

The total operating income of MSL increased by about 27% y-o-y largely backed by increased sales volume albeit moderation in sales realisation. The revenue for FY23 stood at Rs 641.48 crores against Rs 504.52 crores in FY22. However, PBILDT margin has moderated from 7.69% in FY22 to 2.66% in FY23 mainly due to lower sales realisation as a result of on the imposition of duty on the export of iron ore, pellets, steel and steel intermediaries by the Government of India w.e.f May 22, 2022, and correction of steel prices and lowered demand owing to increase in interest rates and recession fears, thereby impacting profitability for Q1FY23 and Q2FY23. Going forward, profitability margins are expected to improve backed by softening raw material prices and improving sales realisation.

Favourable industry outlook

India's steel consumption is expected to grow by 7.5% during the current fiscal year to March 2024, boosted by rising demand from the domestic construction, railways and capital goods sectors. Steel demand is expected to be 128.9 million tonnes during 2023-24, up from 119.9 million tonnes during the previous year. The steel sector has benefited from India's strong economic growth, and industries such as automotive and consumer durables are expected to fuel steel consumption. Economic growth in Asia's third-largest economy is forecast to average 6.0% for the current fiscal year and then rise to 6.4% in 2024-25 which is driven by a strong momentum in infrastructure spending and sustained growth in urban consumption. Steel demand in India will continue to expand by 8-9 million tonnes each year in the next two financial years.

Key weaknesses

Small scale of operation

MSL operates on a relatively small scale as compared to other players operating in the industry, with income from operations and total capital employed of Rs 641.48 crore and Rs 288.09 crore respectively in FY23 (Rs.504.52 crore and Rs.269.11 crore in FY22).

Geographical and client concentration risk

MSL's customer base remained concentrated with top 10 customer contributing over 52% of its sales (46% in FY22). Further, the sales have been mainly driven by supply of HR Coils to its group companies based in Nigeria (MINL Limited & Sumo Steel Limited). In FY22, its share of turnover to Nigeria has significantly reduced to 4% of total sales (18% in FY21) on account of company's focus on decreasing trading sales to Nigeria, coupled with Merchant Trading restrictions from Nigerian Government. However, in FY23, company's share of turnover to Nigeria has jumped to 20% of the total sales due to increased demand of steel products in Nigeria along with easing of restrictions from Nigerian Government. The same exposes the company to geographical concentration risk to a certain extent.

Low capacity utilization albeit improvement in colour coating plant

The production process of the company involves re-rolling of HR coils at room temperature to achieve exact shapes and better surface qualities to produce CR coils which are then galvanized (zinc coated) and colour coated. The company only had galvanizing facility at Bankura. The CR mill is located in Haldia. Therefore, the company does not find it feasible to transport CR products to Bankura due to logistics costs and hence the Bankura plant is non-operational from FY14 onwards.

The capacity utilization of steel cold rolling mill (excluding job work) has slightly reduced to 23% in FY23 (25% in FY22). Further, capacity utilization of galvanizing plant has also reduced to 61% in FY23 (69% in FY22). However, capacity utilization of colour coating plant has increased to 95% in FY23 (81% in FY22). The combined capacity utilization of the company has reduced from 45% in FY22 to 40% in FY23.

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

MCL procured most of its raw materials through domestic players with domestic purchases standing at around 76% in FY23 (FY22: 85%). MSL imports a portion of its raw material/trading requirement mainly from Japan. In FY23 the overall import stood higher at Rs. 134 crores as against Rs. 62 crores in FY22. This was mainly on account of dip in prices of raw materials in international market in Q2FY23. Hence, the company is exposed to foreign exchange fluctuation risk to the extent of raw materials imported for the purpose of domestic manufacturing. MSL generally hedges its forex payables through forward contracts. The company reported forex loss of Rs 1.07 crore in FY23 vis-à-vis Rs.0.16 crore in FY22.

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.

Project Risk

Company has increased its production capacity of CR sheets and Colour Coated Sheets (CC) from 84,000 MTPA and 24,000 MTPA to 1,20,000 MTPA and 48,000 MTPA respectively in January 2023 through de-bottlenecking exercise of existing plant processes. Further, the company is in the process of addition of Galvalume/ Alu Zinc lines at its existing plant, given the higher demand for Colour coated sheets with Galvalume/ Alu Zinc coating. It is a type of proprietary steel coating that consists of about 55% aluminium, 43.4% zinc and 1.6% silicon. Due to this composition, it is highly effective in protecting the base metal from corrosion at lower cost, through which company will provide better quality product at more affordable price. The new line will increase the combined capacity of Galvanising and Galvalume/ Alu Zinc to 1,20,000 MTPA from current capacity of 36,000 MTPA. The same will help the company in optimising its CR capacity while aligning it with the combined capacity of Galvanising and Galvalume/ Alu Zinc. The project is expected to cost around Rs.80 crores, to be funded majorly by existing liquidity in hand and internal accruals (around 95%). Remaining portion will be funded through term debt. The expected COD of the project is March 2025. Further, with Galvalume/ Alu Zinc capacity in place, the company is also planning to increase its CC capacity from 48,000 MTPA to 96,000 MTPA. The same will have an estimated cost of Rs.40 crores. The same will be initiated only after Galvalume/ Alu Zinc plant is installed. Also, as articulated by the management the funding of the plant will also be majorly through internal accruals.

Liquidity: Adequate

The company's liquidity position is adequate characterized with gross cash accruals of Rs. 18.49 crore in FY23 vis-à-vis negligible term debt repayment obligations coupled with negligible average utilization of its fund based working capital limits (sanctioned CC limits of Rs. 37.00 crore) over the last 12 months ended April, 2023.
As on March 31, 2023, the company has total cash and liquid investments of Rs.110.39 crore, which includes Rs 17.81 crores kept as lien marked FD's against OD limits. However, the OD limits utilization is NIL and hence the FDs are available for any exigencies. Cash flow from operation stood positive at Rs.66.43 crore as on March 31, 2023. The company has negligible long term debt.

Environment, social, and governance (ESG) risks: Not Applicable

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

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 120,000 metric tonne per annum (MTPA) of steel cold rolling products, 36,000 MTPA galvanizing plant and 48,000 MTPA colour coating line at Haldia and 30,000 MTPA galvanizing plant at Bankura. However, the Bankura plant is not operational from FY14 onwards.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (P)
Total operating income	504.52	641.48
PBILDT	38.80	17.07
PAT	29.56	12.65
Overall gearing (times)	0.03	0.16
Interest coverage (times)	48.02	6.91

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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		-	-	-	37.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	203.00	CARE A2+

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	37.00	CARE A-; Stable	-	1)CARE A-; Stable (29-Jun-22)	1)CARE A-; Stable (05-Jul-21)	1)CARE A-; Stable (11-Sep-20)
2	Non-fund-based - ST-BG/LC	ST	203.00	CARE A2+	-	1)CARE A2+ (29-Jun-22)	1)CARE A2+ (05-Jul-21)	1)CARE A2+ (11-Sep-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: +91-033-4018-1631 E-mail: arindam.saha@careedge.in
Relationship Contact Lalit Sikaria Director **CARE Ratings Limited** Phone: + 91-033- 40181600 E-mail: lalit.sikaria@careedge.in	Gopal Pansari Assistant Director **CARE Ratings Limited** Phone: +91-33-4018 1647 E-mail: gopal.pansari@careedge.in Souvik Dutta Lead Analyst **CARE Ratings Limited** E-mail: Souvik.Dutta@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates rais e capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in