

## Newmalayalam Steel Private Limited

December 26, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	30.94 (Reduced from 43.08)	CARE BB+; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	25.00 (Enhanced from 12.92)	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Newmalayalam Steel Private Limited (NSPL) are constrained by modest scale of operations, commodity nature of business with thin operating margins, 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 well-established network of dealers and suppliers and the company's partially integrated manufacturing setup. The ratings also draw comfort from the satisfactory capital structure and financial risk profile.

### Rating sensitivities: Factors likely to lead to rating actions.

#### Positive factors

- Consistent scaling up of volumes by diversifying geographical presence.
- Sustainable improvement in the operating margins by upwards of 4%.
- Sustenance of overall gearing below 1.25x

#### Negative factors

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

### Analytical approach: Standalone

#### Outlook: Positive

The outlook is positive on account of expected improvement in the operational performance of the company translating into sustenance as well as gradual improvement in its financial risk profile in the medium term. Company has postponed its capex plans which is expected to keep the debt levels moderate.

The outlook may be revised to 'Stable' in case the company is unable to meet its envisaged sales and profitability, thereby leading to any material deterioration of its capital structure and financial risk profile.

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Modest scale of operations albeit stable operational performance.

NSPL's Total operation income (TOI) though modest, has remained largely stable in the range of Rs. 300-350 crore in the past three years. The TOI of the company had increased from Rs. 304.84 crore in FY21 to Rs. 359.95 crore in FY23 at CAGR growth of 8.82% backed by improved volume growth and growing market share of the company in Kerala amid healthy demand for GP Pipes and Sheets. The operating margins stood moderated at 3.47% in FY23 (PY:4.02%) on account of volatility in steel Prices. During H1FY24, the company has reported operating income of Rs. 179.09 crores at a healthy PBILDT margins of above 4.26%.

##### 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 3.5-4.5%. 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 the key to maintaining stable margins amid the intense competition. With limited integration and value addition, the PBILDT margins are expected to remain in the range of 3.5-4.5% in the medium term.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://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 strengths****Experience of the promoters and long track record of operations**

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.

**Improved Capital Structure and Financial Risk Profile in FY23**

The capital structure of the company stood improved in FY2 marked by overall gearing of 0.78x as on March 31, 2023 (PY: 1.63x). The debt protection indicators stood satisfactory marked by Total Debt / Gross Cash Accrual Ratio of 3.69x as on March 31, 2023, improved from 5.98x as on March 31, 2022. The net worth also stood improved to Rs. 36.20 crore in FY23 on back of healthy accretion to reserves. In absence of any major debt funded capex plans, Care Ratings expects the Capital structure and financial risk profile to further improve in the medium term.

**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 galvanised 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: Adequate**

The company has adequate liquidity characterized by sufficient cushion in projected accruals vis-à-vis repayment obligations of ₹5.40 crore in FY24 and cash balance of ₹6.72 crore as on March 31, 2023. The operating cycle stood improved at 38 days (PY: 41 days) due to improvement in collection efficiency. The current ratio of the company was at 1.72x as on March 31, 2023. To fund the incremental working capital requirements, the company has enhanced its non-fund-based limits to Rs. 25.00 crore thus providing adequate cushion in the form of unutilized credit lines. The average utilization of working capital limits stood at 46% for the past 12 months ending in September 2023.

**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

NSPL was incorporated in 2017 and is involved in the manufacturing of galvanised pipes and sheets with a capacity of 90,000tonne 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 Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24(P)
Total operating income	323.54	359.95	179.09
PBILDIT	13.01	12.48	7.63
PAT	6.73	6.00	4.16
Overall gearing (times)	1.63	0.78	NA
Interest coverage (times)	4.86	4.22	NA

A: Audited, P: Provisional, NA: Not Available; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Nil

**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		-	-	-	20.00	CARE BB+; Positive
Fund-based - LT-Term loan		-	-	June 2027	10.94	CARE BB+; Positive
Non-fund-based - ST-Letter of credit		-	-	-	25.00	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 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-Term loan	LT*	10.94	CARE BB+; Positive	-	1)CARE BB+; Stable (12-Jan-23)	-	-
2	Fund-based - LT-Cash credit	LT*	20.00	CARE BB+; Positive	-	1)CARE BB+; Stable (12-Jan-23)	-	-
3	Non-fund-based - ST-Letter of credit	ST**	25.00	CARE A4+	-	1)CARE A4+ (12-Jan-23)	-	-

\*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	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-Letter of credit	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

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