Lall Steels Private Limited (Revised)

May 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	28.55 (Enhanced from 9.00)	CARE BB; Stable	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B+; Stable;
Long Term / Short Term Bank Facilities	8.11 (Enhanced from 6.00)	CARE BB; Stable / CARE A4	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B+; Stable / CARE A4;

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

In the absence of minimum information required for the purpose of rating, CARE Ratings Ltd. (CARE) was unable to express an opinion on the rating of Lall Steels Pvt Ltd (LSPL) and in line with the extant SEBI guidelines, CARE revised the rating of bank facilities of the company from 'CARE BB-; Stable / CARE A4' to 'CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING'.

However, the company has now submitted the requisite information to CARE. Accordingly, CARE has carried out a full review of the rating and the rating is revised to 'CARE BB; Stable / CARE A4'.

The rating assigned to the bank facilities of Lall Steels Private Limited (LSPL) is constrained by its modest scale of operation, project implementation risk (third induction furnace) with pending financial tie-up, leveraged capital structure, working capital-intensive nature of its operations, susceptibility of profitability to volatility in raw material prices and intense competition & cyclicality associated with the steel industry. CARE takes note of successful commissioning of its billet manufacturing and enhanced TMT plant in mid-Jan 2024.

The ratings however derive comfort from experienced promoters, ramp up in scale of operation post COD (Commercial Operations Date) of the billet & TMT plant, improvement in collection period and favourable locational advantage.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Increase in scale of operation above Rs. 200 crores while operating margins sustaining above 5%.
- Improvement in debt coverage indicators from current levels.

Negative factors

- Inability to scale up operations to Rs.160 crore while achieving operating margins of 3.5% in FY25.
- Deterioration in overall gearing ratio above 2.00x.
- Any elongation in receivable cycle from current levels.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the ability of the entity to sustain its operational and financial performance on the back of commissioning of its new billet plant and expansion of TMT rebar plant since mid-Jan 2024.

Detailed description of the key rating drivers:

Key weaknesses

Modest scale of operations albeit improvement witnessed post commissioning of new billet and enhancement of TMT rebar capacity from Jan 2024: Post dip in Total operating income (TOI) in FY22 during the Covid-19 pandemic**,** the company's TOI has witnessed improvement to Rs 51.90 crores and Rs 62.15 crores in FY23 and FY24 (Prov). However, the scale of operations remain modest.

In FY23, the company sold off its ingot unit as scrap and in FY24, existing TMT rebar (rolling) unit was temporarily shut down for several months during the construction of the new billet unit and the upgrade of the TMT rebar plant. This led to lower revenues until December 2023, with the company recording revenues of approximately ~Rs 23 crores for the first nine months of FY24. Out of the TOI of around ~Rs 62.15 crores in FY23, around ~Rs.39 crore was booked in Q4FY24 post commissioning of billet plant and upgradation/enhancement of TMT plant in mid-January 2024. In FY25, the company's TOI is expected to improve significantly given the commissioning of new billet & enhanced TMT rebar facilities in mid-Jan 2024.

Project implementation risk with pending financial tie-up: The company is in the process of installing a third induction furnace which would increase its billet capacity from the current 52,800 MTPA to around 79,000 MTPA. Apart from the same, The

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

company is also doing ancillary works like constructing sheds and upgradation of old rolling mills. The total estimated cost is approximately Rs 12 crores, to be financed with Rs 9 crores in debt and the remainder from internal accruals. However, financial closure is pending. The company plans to commission the third induction furnace by September 2024.
As of April 30, 2024, the company has invested Rs 3 crores from its own funds. The addition of the third furnace is expected to improve the utilization of the rolling mill, currently operating at 50 to 60% capacity.

Leveraged capital structure: The capital structure of the company remained leveraged marked by overall gearing of 1.08x as of March 31, 2024, as compared with 0.65x as of March 31, 2023. The moderation was largely on account full drawdown of term debt and increase in unsecured loans to fund the capex and increase in WC utilisation to fund its increased scale of operations. As of March 31, 2024, the company had debtors pertaining to more than 6 months amounting to Rs 5 crores (pending for more than 1 year, after adjusting the same, the overall gearing stands at 1.42 times (PY: 0.96 times).
Going ahead, the company is expected to avail term debt of Rs.9 crore for setting up the third induction furnace along with enhanced working capital limits of Rs.15 crore (current sanctioned limits of Rs.9.5 crore) to fund growing scale of operations.

Working capital intensive nature of operations albeit improvement witnessed in collection period: The operations of LSPL is working capital intensive in nature as the company historically gave credit of around three to four months to its customers and maintained inventory of around two to three months for timely supply to its customers. Moreover, it availed credit of around one month from its suppliers.
However, the company has revised its collection policy, now predominantly conducting sales against advances. However, for long-standing customers, credit of 10 to 15 days is extended. Although the change in policy has led to improvement in collection period to 85 days in FY24 (compared to 108 days in the previous year), it remains elongated due to receivables pending over 6 months, totalling around Rs 5 crores, some of which are under litigation according to management, thus extending the operating cycle.
As of March 31, 2024, receivables less than 6 months amounted to approximately Rs 9 crores out of total receivables of Rs 14 crores, resulting in a collection period of around 20 days for current sales. With revision in debtors' management policy, the company can finance its purchases in advance, leading to a decrease in the creditors' period from 20 days in FY22 to 4 and 7 days in FY23 and FY24, respectively. This improvement signifies better management of working capital for the company.

Profitability susceptible to volatility in raw material prices: The company currently lacks backward integration for essential raw materials such as pig iron, coal, and sponge iron, sourcing them from the open market at spot prices. Previously, it relied on external sources for billets for its rolling mill operations. However, with the inception of its own billet unit starting January 2024, the company now stands to benefit from cost savings by producing billets in-house, which would help in boosting the profit margins. Nonetheless, the company remains susceptible to fluctuations in the steel sector's demand and supply dynamics, thereby maintaining volatility in its profitability.

Intense competition and cyclicality in the steel industry : The steel industry operates within a cyclical framework, closely tied to economic fluctuations, given its primary users—construction, infrastructure, automobiles, and capital goods—are significantly influenced by economic conditions. Consequently, a downturn in demand within these sectors directly impacts the demand for steel products. This sensitivity to economic shifts underscores the steel industry's susceptibility to changes in overall economic health, interest rates, and seasonal variations in market demand and supply conditions.
Competition within the steel sector is intense, characterized by both organized and unorganized players. Moreover, the industry's product range is relatively limited due to the commodity nature of steel products. While there has been a trend towards greater organization within the industry, with a decline in the share of unorganized players over time, margins remain under pressure due to the continued fragmentation of the industry. This competitive landscape necessitates a focus on operational efficiency, cost management, and strategic positioning within the market to maintain profitability amid challenging market conditions.

Key strengths

Experienced promoters: LSPL is into manufacturing of iron and steel products since 1994 and thus have a long 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 has around three decade of experience in iron and steel industry, and he 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.

Successful installation of the billet plant and augmentation of TMT bar capacity, anticipated to drive future revenues and margin growth: The company has successfully completed the installation of the billet plant and the enhancement of TMT bar capacity by mid-January 2024, at a cost of approximately Rs 13 crores. Although the initial plan aimed for a billet capacity of 33,000 MTPA and TMT capacity of 60,000 MTPA, however there has been an increase in the installed capacity (Billet – 52,800 MTPA & TMT – 64,680 MTPA) than envisaged, while remaining within the budgeted cost.

After operations began, the company has generated a total operating income of approximately Rs 38 crores between January 15, 2024, and March 31, 2024, with the majority achieved in February and March 2024. The average monthly sales were around Rs 14 crores during this period. In April 2024, the company has already achieved sales of Rs 15 crores.
Historically, lower profitability margins stem from the older plant (established in 1994) and the less cost-effective TMT manufacturing process due to the absence of Continuous Casting Method (CCM). This necessitated the production of ingots and reheating for TMT manufacturing. In FY24, margins saw a marginal improvement but remained low at around 3.94% (compared

to 3.17% in the previous year). This is primarily attributed to the new plant becoming operational in Q4FY24 while fixed expenses had to be borne for the full year. With the new plant running for the entire FY25, margin improvement is expected.

Favourable locational advantage: The plant's location is advantageous due to the convenient availability of key raw materials such as sponge iron and pig iron. States like Bihar, Jharkhand, and Odisha, which are rich in iron ore resources, has witnessed a thriving steel industry. This abundance of raw materials nearby ensures cost-effective transportation, contributing to reduced operational expenses for LSPL.

Liquidity: Adequate

The company's liquidity position is deemed adequate, with a Gross Current Assets (GCA) of ₹1.42 crores in FY24, comfortably covering repayment obligations of Rs. 0.55 crores. In FY25, the company has repayment obligations of Rs 1.32 crores, against which it is expected to generate sufficient cash flows. LSPL's liquidity is characterized by heavily utilized bank limits, with an unencumbered cash balance of approximately Rs 0.91 crores as of March 31, 2024. The average maximum utilization of fund-based working capital limits stood at 86% during the last 12 months ending March 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

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

Founded in October 1994, Lall Steels Private Limited (LSPL) was established by Mr. Jai Prakash Lal, Mr. Vijay Kumar Lal, and Mr. Sanjay Kumar, headquartered in Giridih, Jharkhand. The company has an aggregate installed capacity of 52,800 MTPA and 64,680 MTPA, respectively, for manufacturing of billets and TMT bars, respectively.
The day-to-day operations of LSPL are overseen by Mr. Jai Prakash Lal and Mr. Vijay Kumar Lal, both of whom possess extensive experience exceeding two decades in the iron and steel industry.
LSPL has an established a network of approximately 76 dealers and 13 distributors across multiple states, facilitating its distribution and market reach.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	1MFY25 (UA)
Total operating income	51.90	62.15	15.00
PBILDT	1.65	2.45	-
PAT	0.08	0.20	-
Overall gearing (times)	0.65	1.08	-
Interest coverage (times)	2.92	2.24	-

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		-	-	-	15.00	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	8.11	CARE BB; Stable / CARE A4
Term Loan-Long Term		-	-	September, 2028	13.55	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 2024-2025	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
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	8.11	CARE BB; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (05-Jan-24)	1)CARE BB-; Stable / CARE A4 (04-Jan-23)	-
2	Term Loan-Long Term	LT	13.55	CARE BB; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (05-Jan-24)	1)CARE BB-; Stable (04-Jan-23)	-
3	Fund-based - LT-Cash Credit	LT	15.00	CARE BB; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (05-Jan-24)	1)CARE BB-; Stable (04-Jan-23)	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: 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 - LT/ ST-Bank Guarantee	Simple
3	Term Loan-Long Term	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.

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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 raise 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.

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