Manaksia Steels Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	45.00 (Enhanced from 37.00)	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	330.00 (Enhanced from 203.00)	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of rating assigned to the bank facilities of Manaksia Steels Limited (MSL) takes into account the stable financial performance of the company in FY24 (refers to period April 01,2023 to March 31, 2024) along with improvement in the profitability margins. The rating further continues to draw strength from long experience of the promoters in steel industry, strategic location of the plant and comfortable capital structure and debt protection metrics.

The rating is, however, constrained by small scale of operations, geographical and client concentration risk, low capacity utilization, profitability susceptible to volatility in the prices of raw materials, exposure to foreign exchange fluctuation risk and cyclicality associated with the steel industry.

The rating further takes into consideration the ongoing project for capacity enhancement which is also expected to lead to improvement in capacity utilisation of the existing capacity. The project is being executed in two phases, the first of which is expected to be completed by Q3FY25.

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 (Son of Mr. S. K. Agrawal) 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 due to increase in debt level as on March 31, 2024 due to increase in creditors backed by LC for import of raw materials. The gearing ratios remained comfortable with overall gearing at 0.59x (PY: 0.16x) as on March 31, 2024. However, both TD/GCA and interests coverage ratio moderated due to

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

increase in debt level. The TD/GCA moderated to 4.80x in FY24 against 2.50x in FY23, whereas interest coverage ratio moderated to 4.50x in FY24 against 6.91x in the previous year.

Stable financial performance along with improvement in profitability

The TOI of MSL remained stable in FY24 with Rs 631 crore against Rs 641 crore in FY23. Both the export sales and domestic sales remain at a similar level with Rs 144 crore (PY: 141 crore) and Rs 488 crore (PY: 494 crore) respectively. However, the TOI in FY23 also included job work of around Rs 6.00 crore, which resulted in increase in the turnover. The company is projected to improve its turnover and profitability going ahead with the completion of its galvalume project in FY25.

The PBILDT margin, which was previously moderated in FY23 to 2.66% owing to the imposition of duty on the export of iron ore, pellets, steel and steel intermediaries by the Government of India and the Russia-Ukraine war, has recovered to 5.13% in FY24, owing to moderation in raw material price and power & fuel cost.

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 632 crore and Rs 332 crore respectively in FY24 (Rs. 641 crore and Rs. 288 crore in FY23).

Geographical and client concentration risk

MSL's customer base remained concentrated with top 10 customer contributing over 51% of its sales during FY24 (52% in FY23). The company generated revenue of around 78% in FY24 from selling its products in domestic market and rest through exports. In FY24, around 18% of sales includes supply of HR Coils and trading of aluminium sheets to its group companies based in Nigeria (MINL Limited & Sumo Steel Limited). Further, the company is currently focusing to markets like Portugal and Italy where there is notable demand for high quality colour coated sheets.

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 current capacity of MSL is 192,000 MTPA (120,00 MTPA CR coils capacity ; 24,000 MTPA galvanising capacity ; 48,000 MTPA colour coating capacity) with 39% capacity utilisation in FY24 (FY23 : 36%). However, MSL is currently in the process of debottlenecking its production facilities. With the completion of galvalume unit of 96,000 MTPA, the overall capacity utilisation is expected to increase from FY25 onwards.

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 procured most of its raw material, HR coils, majorly from Japan with raw material import stood at around 55% in FY24 of total raw material purchase. This was mainly on account of dip in prices of raw materials in international market and also availability of more diversified product mix as compared to domestic suppliers. Hence, the company is exposed to foreign exchange fluctuation risk to the extent of raw materials imported for the purpose of domestic manufacturing. The company reported forex loss of Rs 1.68 crore in FY24 as against Rs 1.07 crore in FY23. Furthermore, the company also exports its products to countries like Bhutan and Nigeria. However, the majority of these sales are done on advance basis.

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

The company is in the process of enhancing its colour coating limit to 96,000 MTPA (Currently 48,000 MTPA) and also setting up a new facility in its existing plant in Haldia to introduce new product called Galvalume. The production capacity of Galvalume Sheets are expected to be 96,000 MTPA. The COD of the project is scheduled at Q3FY25.

Total estimated cost of the project will be Rs 120 crores, which includes Rs 80 crores for Galvalume project and Rs 40 crore for colour coating capacity enhancement project. The entire project cost will be funded through existing liquid investments and internal accruals of the company. The project will be done in two phases. The first phase, which is currently ongoing, is setting up of galvalume unit, with a total capital expenditure of Rs 80 crores. MSL has invested Rs 40 crores till FY24, with the remaining amount expected to be expensed in FY25. For the second phase i.e. enhancement of the colour coating capacity, the company will expense another Rs 40 crore, which will start post the completion of galvalume unit.

Liquidity: Strong

The company's liquidity position is strong characterized with gross cash accruals of Rs. 38.12 crore in FY24 vis-à-vis negligible debt repayment obligations and low utilization of its working capital limits. The company has average maximum utilisation of 31% for 12 months period ending March, 2024 against sanctioned limit of Rs 42 crores.
As on March 31, 2024, the company has free cash and liquid investment of Rs 147.63 crore. Further, the company also has Rs 21.07 crore lien marked FD. The cash flow from operation (CFO) for the year FY24 stood at Rs 63.10 crore.
The operating cycle changed significantly during the year with 10 days against 41 days during FY23. The change was majorly due to the increase in creditor's days due to higher imports of raw material, from 19 days in FY23 to 70 days in FY24. Whereas the debtor's period and inventory cycle remained at a similar level.

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
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

Manaksia Steels Ltd (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, 24,000 MTPA galvanizing plant and 48,000 MTPA colour coating line at Haldia. The company also has a 30,000 MTPA galvanizing plant at Bankura. However, the Bankura plant is not operational from FY14 onwards.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	641.48	631.96
PBILDT	17.07	32.44
PAT	12.65	30.22
Overall gearing (times)	0.16	0.59
Interest coverage (times)	6.91	4.50

A: Audited; 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	45.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	330.00	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 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	Fund-based - LT-Cash Credit	LT	45.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Jul-23)	1)CARE A-; Stable (29-Jun-22)	1)CARE A-; Stable (05-Jul-21)
2	Non-fund-based - ST-BG/LC	ST	330.00	CARE A2+	-	1)CARE A2+ (07-Jul-23)	1)CARE A2+ (29-Jun-22)	1)CARE A2+ (05-Jul-21)

LT: Long term; ST: 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.

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About us:

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