

## Newmalayalam Steel Limited (Erstwhile Newmalayalam Steel Private Limited)

January 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	26.29 (Reduced from 30.94)	CARE BBB-; Stable	Upgraded from CARE BB+; Positive; Outlook revised from Positive
Long-term / Short-term bank facilities	30.00	CARE BBB-; Stable / CARE A3	Assigned
Short-term bank facilities	25.00	CARE A3	Upgraded from CARE A4+

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Newmalayalam Steel limited (NSL) take into account the improved capital structure and liquidity position of the company post successful SME IPO. The ratings continue to draw strength from the vast experience and promoters in the steel Industry, NSL's well-established network of dealers and suppliers. The ratings are however constrained by the commodity nature of business with thin operating margins, exposure of profitability margins to volatility in raw material price and foreign exchange fluctuations, and cyclical nature of steel industry.

### 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%.
- Sustainance of overall gearing below 0.50x.

#### Negative factors

- Elongation in operating cycle beyond 90 days.
- Any debt- funded capital expenditure leading to deterioration in the overall gearing beyond 2x.

### Analytical approach: Standalone

### Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company's operations will continue to remain stable in the medium-term deriving benefit from long-standing promoters' experience.

### Detailed description of the key rating drivers:

#### Key Strengths

#### Comfortable capital structure post successful completion of IPO

The entity's capital structure stood moderate, as marked by an overall gearing of 1.46x as on March 31, 2024 (0.78x as on March 31, 2023) and total net worth (TNW) of ₹40.47 crore. NSL has successfully completed its SME IPO and was listed on December 27, 2024. Post successful completion of IPO, TNW is expected increase by ₹37.38 crores with improvement in overall gearing to below 1x on a sustained basis. Interest coverage indicator also moderated, standing at 2.98x for FY24 (PY: 4.19x). This has also improved in H1FY25, standing at 5.02x.

#### Established customer and supplier base in Kerala

The company has a network of ~150 dealers, aiding in getting continuous orders. The primary raw material is galvanized steel coils and sheets, which is sourced from multiple domestic and overseas suppliers' basis favourable pricing. The company imported 55% of its raw materials in FY24 mainly due to cheaper steel prices abroad. The company has a single owned warehouse of 20000 sq ft in Thrissur, in the central part of Kerala, which mitigates logistics cost for dealers across Kerala to pick up finished goods. NSL plans to construct another warehouse in the same premises to increase its storage capacity using proceeds from SME IPO. This is expected to improve capacity utilisation, which is currently ~50-60%.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### **Largest manufacturing facility in Kerala**

The company is engaged in manufacturing and selling GP steel Pipes and Sheets under the brand name 'DEMAC'. NSL has a Galvanized steel Pipes and sheet manufacturing unit with installed capacity of 90,000 MTPA. The primary raw material used is Galvanized steel Coils. The company's manufacturing facility is equipped with three production lines to cater to future scalability of operations. The facility is ISO9001:2015 certified along with ISI certification for all products. Post successful completion of IPO, the company is planning to invest ₹2.56 crore towards construction of new storage-cum-shed, which is expected to increase its capacity utilisation levels. This is largest manufacturing facility for GP pipes in Kerala in terms of capacity and its location in central Kerala gives a competitive edge.

### **Stable operational performance despite moderation in FY24**

Total Operating Income (TOI) grew at a compounded annual growth rate (CAGR) of 7.67% in the last five years ended FY24 with an improvement in sales volume of GP Pipes from 37000 MT in FY20 to 40000 MT in FY24. TOI moderated by 16% (volume dropped by 9%) to ₹302.35 crore in FY24 over FY23 considering slowdown in construction business and ongoing correction of prices of steel by 30-40% since post covid peak. It has also reported TOI of ₹200 crore till November 2025. Sales realisation in GP Pipes moderated in FY24 to ₹68.81/Kg from ₹73.83/Kg in FY23 as steel prices moderated. In H1FY25, sales realisation on GP Pipes stood at 69.45 per Kg.

### **Experience of promoters and long track record of operations**

The company is promoted by V.D. Varghese, Managing Director, who has over a decade experience in steel industry. Varghese started NSL in 2017 with 50% investment from Mahendra Kumar Jain who is from Jaihind group has over 35 years' experience in steel pipe and tube trading and manufacturing.

NSL is managed by V.D. Varghese and his son Cyriac Varghese.

### **Key Weaknesses**

#### **Geographical concentration risk and fragmented industry**

The steel industry is cyclical in nature, as the demand for steel products depends 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. The company's operations are largely confined to Kerala, which also keeps operations geographically exposed.

#### **Raw material price risk and forex risk**

The steel industry is sensitive to the shifting business cycles including changes in the general economy and seasonal changes in the demand and supply conditions in the market. Basic raw materials such as sponge iron, pig iron and scrap, which are sourced from the market and its prices are volatile. Galvanized steel coil is the major raw material consumed by NSL contributing ~90-95% of the total consumption by volume and rest consists of scrap. Prices of scrap and galvanized steel are generally volatile. Further, ~55% of the raw material consumed is imported. The lead time for imported raw material is ~60 days. Sharp volatility in currency exchange rates in this period exposes the company to foreign exchange fluctuation risk. Generally, the company hedges ~100% of its forex exposure at all times.

#### **Liquidity: Adequate**

The company has adequate liquidity characterised by sufficient cushion of ₹7.92 crore estimated accruals against repayment obligations of ₹4.74 crore in FY24. The average working capital utilisation of limits stood low at 50.15% for 12 months ended September 2024 supported by an above unity current ratio. To fund the incremental working capital requirements, the company enhanced its non-fund-based limits to ₹40.00 crore, providing adequate cushion in form of unutilised credit line. Of the IPO proceeds, ₹14.20 crore is expected to be infused towards working capital requirement, which would further augment liquidity position.

### **Environment, social, and governance (ESG) risks: Not applicable**

#### **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

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & mining	Ferrous metals	Iron & steel

NSL was incorporated in 2017 by its Promoter V.D. Varghese, the company's managing director. The company is engaged in manufacturing and supplying ISI Marked Galvanized Steel Pipes, Steel Tubes and Galvanized Steel Sheets across sizes under the brand name 'DEMAC'. The company has its manufacturing unit in Mala, Thrissur, with an annual installed capacity of 90,000 MT. Day-to-day operations are supervised by V.D Varghese with the qualified team of professional staff.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	31-03-2024 (A)	H1FY25 (A)
Total operating income	323.39	359.86	302.35	154.87
PBILDT	12.85	12.40	9.71	9.11
PAT	6.74	6.01	4.25	5.19
Overall gearing (times)	1.63	0.78	1.46	0.86
Interest coverage (times)	4.81	4.19	2.98	5.02

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:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	June 2027	6.29	CARE BBB-; Stable
Non-fund-based - LT/ ST-Letter of credit		-	-	-	30.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	25.00	CARE A3

**Annexure-2: Rating history for 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-Term Loan	LT	6.29	CARE BBB-; Stable	-	1)CARE BB+; Positive (26-Dec-23)	1)CARE BB+; Stable (12-Jan-23)	-
2	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB-; Stable	-	1)CARE BB+; Positive (26-Dec-23)	1)CARE BB+; Stable (12-Jan-23)	-
3	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A3	-	1)CARE A4+ (26-Dec-23)	1)CARE A4+ (12-Jan-23)	-
4	Non-fund-based - LT/ ST-Letter of credit	LT/ST	30.00	CARE BBB-; Stable / CARE A3				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of 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 - LT/ ST-Letter of credit	Simple
4	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 complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Priti Agarwal Senior Director <b>CARE Ratings Limited</b> Phone: +91-33-4018 1621 E-mail: <a href="mailto:priti.agarwal@careedge.in">priti.agarwal@careedge.in</a>
<b>Relationship Contact</b>  Pradeep Kumar V Senior Director <b>CARE Ratings Limited</b> Phone: 044-2850 1001 E-mail: <a href="mailto:pradeep.kumar@careedge.in">pradeep.kumar@careedge.in</a>	Sandeep P Director <b>CARE Ratings Limited</b> Phone: 91-44-2850 1002 E-mail: <a href="mailto:sandeep.prem@careedge.in">sandeep.prem@careedge.in</a>
	Aadarsh Gs Rating Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Aadarsh.Gs@careedge.in">Aadarsh.Gs@careedge.in</a>

### 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.

### Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For detailed Rationale Report and subscription information,  
please visit [www.careedge.in](http://www.careedge.in)**