Manaksia Steels Limited

June 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	37.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	203.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**240.00 (₹ Two Hundred Forty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manaksia Steels Limited (MSL) continues to draw strength from long experience of the promoters in steel industry, strategic location of the plant, comfortable financial risk profile, stable operational parameters and improvement in financial performance in FY22 (refers to period April 01 to March 31) with focus on increasing manufacturing turnover which has led to improvement in profitability. The rating, however, is constrained by small scale of operations, client concentration risk, profitability susceptible to volatility in raw material prices, exposure to foreign exchange fluctuation risk and cyclicality associated with the steel industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations beyond Rs.550 crore led by increase in volumes, and profitability margin beyond 9% on a sustained basis.
- Sustenance of capital structure and debt protection metrics.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- 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 0.80x and 5.00x respectively.
- Worsening of operating cycle beyond 75-80 days.
- Net Debt to Gross Cash Accruals not to exceed 0.50 times.

Detailed description of the key rating drivers

Key Rating 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 financial risk profile

Overall gearing remained comfortable at 0.03x as on Mar 31, 2022, as against 0.29x as on Mar 31, 2021 (0.39x as on 31st March 2020). TD/GCA has improved significantly from (4.81x in FY20) 2.51x in FY21 to 0.24x in FY22 in view of higher GCA and reduced debt. The financial risk profile is expected to remain comfortable going forward.

Improvement in financial performance in FY22 with stable operational parameters

The combined capacity utilization of the manufacturing facilities (steel cold rolling, galvanizing and color coating) has improved from 44% in FY21 to 68% in FY22. The improvement is also backed by additional job work undertaken during the year in Steel Cold Rolling Segment. The total operating income of MSL has improved to Rs.504.52 crore in FY22 from Rs.387.96 crore in FY21 (Rs.487.80 crore in FY20) mainly on account of increase realization along with steady volumes. Further, PBILDT margin has also improved to 7.69% in FY22 from 6.78% in FY21 (3.47% in FY20) on account of higher sales realisation coupled with significant increase in manufacturing sales which command higher margins. Interest coverage has also improved significantly to 48.03x in FY22 from 23.10x in FY21 (10.75x in FY20). The company reported GCA of Rs.35.56 crore vis-à-vis nil debt repayment. Going forward, the company is expected to ramp up its business operations and continue to maintain its margins at around the current levels.

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

Key Rating Weaknesses
Small scale of operations
MSL operates on a relatively small scale as compared to players operating in this industry, with income from operations and total capital employed of Rs.504.52 crore and Rs.269.11 crore respectively in FY22 (Rs.387.96 crore and Rs.226.16 crore in FY21, and Rs 487.80 crores and Rs 199.01 crores in FY20).

Client concentration risk albeit reduction in sales to Nigeria indicating diversification of sales
The domestic customer base remained concentrated with top 10 customers constituting ~46% of the domestic sales in FY22 (top 9 customers were ~59% in FY21). MSL's also has substantially low export revenue of HR Coils to its group company based in Nigeria. In FY22, its share of turnover from trading sales to Nigeria has significantly reduced to 4% of total sales (18% in FY21) on account of company's focus on increasing manufacturing turnover.

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 imports a portion of its raw material/trading requirement mainly from Japan. This apart, MSL derives a proportion of its revenue (i.e. 4% of total revenue in FY22 vis-à-vis 18% of total revenue in FY21) through exports to its group company based in Nigeria.
As the trading activity is high-sea sales, the forex receivables and payables are set off to that extent. Thus, the company is exposed to foreign exchange fluctuation risk to the extent of raw materials imported (majorly HR coils) for the purpose of domestic manufacturing sales. MSL generally hedges it forex exposure through forward cover and the company reported forex loss of Rs.0.16 crore in FY22 vis-à-vis forex gain of Rs.1.42 crore in FY21.

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.

Industry Outlook
The disruption in global steel supply is expected to benefit the Indian steel industry. Russia being the major exporter of steel to European Union (EU), the restrictions on the export from Russia to EU will create opportunity for India. In addition, the demand for Indian steel industry will be supported by increased government spending on infrastructure and a gradual economic recovery. The Union Budget 2022-23 has seen an increase of 36% Y-o-Y in allocation of capex at Rs. 7.5 lakh crore. The budget has infrastructure push towards seven engines (roads, railways, airports, ports, mass transport, waterways and logistic infra). The allocation for various schemes like Pradhan Mantri Awas Yojana (PMAY) scheme, Jal Jeevan Mission will have a positive impact on specialty steel and long steel players.

Liquidity: Adequate
The company's liquidity position is adequate characterized with gross cash accruals of Rs.35.56 crore in FY22 vis-à-vis nil term debt repayment obligations and almost nil average utilization of its working capital limits (sanctioned CC limits of Rs.35 crore) over the last 12 months ended April 2022. Further, the company has total free cash and liquid investments of Rs.31.37 crore and Rs. 20.79 crores as lien marked FDs (against unutilised Overdraft limit) as on March 31, 2022.

Analytical approach: Standalone

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
Rating Methodology - Steel Companies

About the Company
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 84,000 metric tonne per annum (MTPA) for steel cold rolling products, 36,000 MTPA for galvanizing

sheets and 24,000 MTPA for colour coating sheets 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, 2021 (A)	March 31, 2022 (P)
Total operating income	387.96	504.52
PBILDT	26.29	38.80
PAT	19.68	29.56
Overall gearing (times)	0.29	0.03
Interest coverage (times)	23.10	48.03

A: Audited, P: Provisional

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 for this company: Annexure 4

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		-	-	-	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	37.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Jul-21)	1)CARE A-; Stable (11-Sep-20)	1)CARE A; Negative (19-Nov-19) 2)CARE A; Stable (28-Jun-19)
2	Non-fund-based - ST-BG/LC	ST	203.00	CARE A2+	-	1)CARE A2+ (05-Jul-21)	1)CARE A2+ (11-Sep-20)	1)CARE A1 (19-Nov-19) 2)CARE A1 (28-Jun-19)
3	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (28-Jun-19)

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

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on 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
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Gopal Pansari
Phone: 9331331422
E-mail: gopal.pansari@careedge.in

Relationship contact
Name: Lalit Sikaria
Phone: + 91-033- 40181600
E-mail: lalit.sikaria@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 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.

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