

Panchmahal Steel Limited

August 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB; Stable (Double B; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4 (A Four) and Withdrawn
Total Bank Facilities	-		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the ratings assigned to the bank facilities of Panchmahal Steel Limited (PSL) to CARE BB; Stable/CARE A4 (Double B; Outlook: Stable/ A Four) and simultaneously withdrawn it, with immediate effect. The rating withdrawal is at the request of PSL and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE. The ratings prior to its withdrawal continue to remain constrained on account of susceptibility of company's profitability to volatility in raw material prices and foreign exchange fluctuation risk, its presence in an intensively competitive and cyclical steel processing industry and its stretched liquidity.

The ratings, however, continue to derive strength from PSL's established operations in the manufacturing of wide range of stainless-steel long products along with its partially backward integrated facility, infusion of funds by promoters to support the business operations and its moderate capital structure. Ratings also take cognizance of improvement in company's total operating income and profitability during FY21 (refers to the period April 1 to March 31) and Q1FY22, post a subdued performance in few quarters ended Q1FY21.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations and profitability with improvement in recent quarters post subdued performance in FY20 and Q1FY21

PSL's total operating income (TOI), post registering a 27% y-o-y decline during FY20, increased marginally to Rs.343.32 crore in FY21. Its operating profitability improved in FY21 and Q1FY22 with a PBILDT margin of 7.99% (1.39% in FY20) and 11% (operating loss in Q1FY21) respectively.

Company's sales volume registered a 26% dip in FY20 due to general slowdown in the economy and covid outbreak, however, with recovery in economic activities, performance improved in recent quarters. This also resulted in improvement in debt coverage indicators with PBILDT interest coverage of over 2.70 times in FY21 (below unity in FY20).

Susceptibility of profitability to volatility in raw material prices and foreign exchange fluctuation risk

PSL's major raw materials constitute of stainless-steel scrap, nickel and ferro-chrome, prices of which are inherently volatile, which exposes PSL's profitability to adverse movement in raw material prices. PSL imports the raw material from various countries (imports formed around 50-60% of its total raw material consumption), whereas its sales are majorly in domestic market. This exposes PSL's profitability to exchange rate fluctuations since PSL does not hedge its import obligation, though partial natural hedge is available through exports.

Presence in a highly competitive and cyclical stainless-steel industry

Products of PSL are specialized stainless steel products such as stainless-steel wire, bright bar and wire rod used in various industries, with automobiles and capital goods being large demand segments. Thus, demand for such products is largely linked to the demand in these segments which closely follow the macroeconomic cycle and thus are cyclical in nature. Furthermore, presence of a large number of unorganized players in the stainless steel products manufacturing industry results in limited bargaining power of the players, thus restricting their profitability.

Key Rating Strengths

Established operations in the stainless steel long products and experienced promoters

PSL has an established track record of operations of over four decades in the manufacturing of stainless steel long products such as bars, rods, coils and wires. It also has a backward integration facility for stainless steel melting shop, rolling mill and cold finishing facility for producing billets, which are then captively consumed for manufacturing its end products. PSL also has an established marketing network in both domestic and export markets. PSL's promoters also possess vast experience of over four decades in the stainless steel industry and have demonstrated their support towards

PSL by way of fund infusion in the form of inter-corporate deposits to support business operations, which stood at Rs.10.23 crore as on March 31, 2020 (Rs.9.78 crore as on March 31, 2019).

Moderate capital structure

Overall gearing of PSL improved to around 0.54 times at FY21 end post deterioration to 1.15 times as on March 31, 2020 and further to 1.25 times as on June 30, 2020 compared to 0.99 times as on March 31, 2019 owing to erosion in net worth on account of losses. Company's debt profile mainly consists of working capital borrowings required to fund its high inventory holding period, along with unsecured loans from promoters/ related parties. It does not have any external long-term debt (except for the additional fund-based line availed recently).

Analytical approach: Standalone

Applicable Criteria

[CARE's policy on withdrawal of ratings](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Steel](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

About the Company

Incorporated in 1972, Panchmahal Steel Limited (PSL) is engaged in manufacturing of stainless steel long products at its sole manufacturing facility located at Kalol in Panchmahal district of Gujarat. PSL operates with an installed capacity of 72,000 metric tonne per annum (MTPA) for bars, rods, coils & wires along with backward integration facility of stainless steel melting shop of 150,000 MTPA for steel billets as on March 31, 2020. These products are mainly used in the capital goods, automobile, railways and pharmaceutical machinery industries. PSL was registered with Board of Industrial Finance and Reconstruction (BIFR), but gradually revived its operations from 2006 and was consequently discharged from BIFR during 2008. Also, its debt was restructured under the Corporate Debt Restructuring (CDR) mechanism in the past. PSL had paid off its entire debt obligation which was part of CDR, in July 2012. However, due to procedural delays, PSL received formal exit from debt restructuring scheme during FY14.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)#
Total operating income	331.20	343.32
PBILDT	4.62	27.44
PAT	-32.22	9.81
Overall gearing (times)	1.15	0.54
Interest coverage (times)	0.34	2.70

A: Audited; #Abridged results published on BSE

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

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

Bank Lender Details: Please refer Annexure - 5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	0.00	Withdrawn
Non-fund-based-Short Term	-	-	-	0.00	Withdrawn
Fund-based - LT-Working Capital Demand loan	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based-Long Term	LT	-	-	-	1)CARE BB; Stable (21-Sep-20)	1)CARE BB+; Stable (19-Sep-19)	1)CARE BB+; Stable (24-Sep-18)
2.	Non-fund-based-Short Term	ST	-	-	-	1)CARE A4 (21-Sep-20)	1)CARE A4+ (19-Sep-19)	1)CARE A4+ (24-Sep-18)
3.	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)CARE BB; Stable (21-Sep-20)	-	-

Annexure 3: Covenants of rated instrument/facility: Not Applicable**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based-Short Term	Simple
3.	Fund based-LT-Working Capital Demand Loan	Simple

Annexure 5: Bank Lender Details: Not Applicable as ratings has been withdrawn

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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