Manaksia Steels Limited

June 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	50.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	180.00 (reduced from 204.50)	CARE A1 (A One)	Reaffirmed
Total Facilities	230.00 (Rs. Two hundred thirty crore only)		
Commercial Paper	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manaksia Steels Ltd (MSL) continue to draw strength from the long experience of the promoters in steel industry and comfortable capital structure & debt protection metrics. The above rating strengths are constrained by moderation in financial performance in FY19 (refers to period April 01 to March 31), moderate capacity utilization, geographical concentration risk, profitability susceptible to volatility in prices of raw-materials, exposure to foreign exchange fluctuation risk and working capital intensive nature of operations. Going forward, the ability of the company to diversify client base/geographical concentration, improve profitability margin and efficient management of working capital would remain the key rating sensitivities.

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.

Comfortable capital structure & debt protection metrics: The capital structure of the company continued to remain comfortable. Overall gearing improved from 0.89x as on March 31, 2018 to 0.19x as on March 31, 2019. The debt protection metrics of the company also improved with Total Debt/GCA of 2.24x as on March 31, 2019 as against 6.98x as on March 31, 2018.

Key Rating Weaknesses

Moderation in financial performance in FY19: The total operating income of MSL increased y-o-y by 40% to Rs.688.71 crore in FY19. Although the PBILDT margin of the company declined from 7.54% in FY18 to 4.18% in FY19, interest coverage improved from 9.50x in FY18 to 10.56x in FY19. The company reported gross cash accruals of Rs.15.41 crore (vis-à-vis Rs.22.41 crore) as against nil debt repayment obligations.

Moderate capacity utilization: The total capacity utilization has remained moderate at 45% in FY19 vis-à-vis 44% in FY18. The company is not operating the galvanizing plant at Bankura in view of low demand for the product.

Geographical concentration risk: MSL's export revenue is mainly driven by supply of HR Coils to its group company based in Nigeria. In FY19, its share of turnover to Nigeria increased from 44% in FY18 to 52% in FY19.

Working capital intensive nature of operations: MSL's operation is working capital intensive in nature as it needs to provide certain credit period to its customers in view of general practice in the industry and stock inventories due to lead time involved in supply of raw material by the overseas supplier. MSL imports raw materials mainly from Japan, Hong Kong, Singapore, South Korea and China at the market rates through LC.

Profitability susceptible to volatility in the prices of raw materials: Raw material expense is the major cost driver for MSL, accounting for roughly ~80% of the total cost of manufacturing for FY19 (as against ~76% in FY18). The prices of raw-materials are highly volatile in nature due to commodity nature of product, whose prices are determined based on global

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 majority (~91% in FY19) of its raw material requirement. MSL also derives a significant proportion of its revenue through exports (58% in FY19). The forex receivables are set off by the forex payables for the HR Coils imported. Thus the company is exposed to foreign exchange fluctuation risk to the extent of raw materials imported for the purpose of domestic manufacturing sales. Although MSL has a flexible forex policy and generally partially hedges it forex exposure through forward cover, the company reported forex loss of Rs.5.65 cr in FY19 vis-à-vis Rs.2.70 crore in FY18.

Industry Outlook: Flat steel production accounted for ~48% of total steel production during FY17 to 9MFY19. During FY16-FY18, flat steel consumption has grown at a CAGR of 10.9%. However the consumption growth of flat steel has decelerated to 5.9% in 9MFY19 vis-à-vis 13.3% in 9MFY18.
The steel demand & prices in China is expected to remain subdued due to trade tensions with US. Accordingly steel prices in India is expected to follow the Chinese trend and are likely to average lower by about 5% on y-o-y basis during FY20. However an increase of 5.5%-7.5% in domestic consumption during FY20 is expected to restrict any sharp fall in domestic prices.

Liquidity: Liquidity is marked by gross cash accruals of Rs.15 crore against nil repayment obligations. MSL had free cash & cash equivalents of Rs.25.50 crore as on March 31, 2019 the balance of which as on May 31, 2019 was Rs.52.90 crore. The liquidity position of the company has further improved due to efficient collection of debtors as exhibited by improvement in operating cycle from 100 days in FY18 to 57 days in FY19. The average working capital utilization of the company stood comfortably at 2.21% & 57.36% for fund based & non-fund based respectively for last 12 months ended May'2019. The unutilized bank lines are adequate to meet its incremental working capital needs over the next one year.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
CARE's methodology for trading companies

About the Company
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 coils/sheets, galvanized plain & corrugated sheets and colour coated sheets. The company has a manufacturing capacity of 84,000 MTPA steel cold rolling products, 36,000 MTPA galvanizing plant and 24,000 MTPA colour coating line at Haldia and 30,000 MTPA galvanizing plant at Bankura. However, the Bankura plant is not currently operational.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	493.50	688.71
PBILDT	37.21	28.78
PAT	16.66	10.32
Overall gearing (times)	0.89	0.19
Interest coverage (times)	9.50	10.56

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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 - LT-Cash Credit	-	-	-	50.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	180.00	CARE A1
Commercial Paper	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE A; Stable	-	1)CARE A; Stable (06-Jul-18)	1)CARE A; Stable (22-Sep-17)	1)CARE A; Stable (18-Jan-17) 2)CARE A (13-May-16)
2.	Non-fund-based - ST-BG/LC	ST	180.00	CARE A1	-	1)CARE A1 (06-Jul-18)	1)CARE A1 (22-Sep-17)	1)CARE A1 (18-Jan-17) 2)CARE A1 (13-May-16)
3.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (18-Jan-17) 2)CARE A1 (13-May-16)
4.	Commercial Paper	ST	-	-	-	1)CARE A1 (06-Jul-18)	1)CARE A1 (22-Sep-17)	-

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.*

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Name: Ishan Marda
Contact no.: 033-4018 1604
Email ID: ishan.marda@careratings.com

Business Development Contact

Name: Lalit Sikaria
Contact no.: 033 – 4018 1607
Email ID: lalit.sikaria@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**