

Manaksia Steels Limited

July 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long Term Bank Facilities	50.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	204.50	CARE A1 (A One)	Reaffirmed
Total	254.50 (Rs. Two hundred fifty four crore and fifty lakh only)		
Commercial Paper Issue*	20.00 (Rs. Twenty crore only)	CARE A1 (A One)	Reaffirmed

*Carved out of the sanctioned working capital limit of the company

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Manaksia Steels Ltd (MSL) continue to draw strength from the long experience of the promoters in steel industry, improvement in financial performance in FY18 (refers to period April 1 to March 31) and satisfactory financial risk profile. The above rating strengths are constrained by geographical concentration risk though declined in FY18 due to high proportion of revenue coming from Africa, 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 operating margin and efficient management of working capital would remain the key rating sensitivities.

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.

Improvement in financial performance in FY18: The total operating income of MSL increased by 48.43% to Rs. 493.50 crore in FY18 as against Rs.334.14 crore in mainly due to higher off-take of its end product in the domestic market. PBILDT margin though declined to 6.99% in FY18 as against 7.50% in FY17 but on an absolute basis PBILDT increased from Rs.25.06 in FY17 to Rs.34.51 crore in FY18. Higher PBILDT coupled with relatively lower interest cost led to improvement in interest coverage ratio from 5.66x in FY17 to 8.81x in FY18. MSL reported GCA of Rs.22.41 crore in FY18 as against nil term debt obligations.

Satisfactory financial risk profile: The capital structure of the company continued to remain at comfortable level with Overall gearing and Total Debt/ GCA at 0.89x and 6.98x respectively as on March 31, 2018 as against 0.41x and 4.26x respectively as on March 31, 2017.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Key Rating Weakness

Geographical concentration risk: MSL generated 44% of its revenue from Nigeria, though the same reduced from 65% in FY17. On absolute basis the revenue from Nigeria remained stable at Rs.216 crore in FY18 as against Rs.211 crore in FY17. MSL mainly supply steel products to the companies based in Nigeria.

Profitability susceptible to volatility in the prices of raw materials: Raw material expense is the major cost driver for MSL, accounting for roughly ~88% of the total cost of sales in FY18 (as against 85% in FY17). 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 that the raw-material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw material prices.

Exposure to foreign exchange fluctuation risk: MSL imports majority (90% in FY18) of its raw material requirement. MSL also derives a significant proportion (50% in FY18) of its revenue through exports. As a result, MSL's foreign currency denominated payables get set off against the foreign currency denominated receivables to a large extent. However, the company is exposed to foreign exchange fluctuation risk due to timing difference between foreign currency receivables and payables. The company has a flexible forex policy and generally partially hedges its forex exposure through forward cover. MSL reported forex loss of Rs.2.70 crore in FY18 as against loss of Rs. 1.84 crore in FY17.

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 import of raw-material. MSL imports raw materials mainly from China, Japan, Hongkong, Singapore, etc at the market rate majorly through LC.

Analytical approach: Standalone

Applicable criteria

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

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

[Rating Methodology: Factoring Linkages in Ratings](#)

[CARE's methodology for manufacturing companies](#)

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

About the group

Manaksia Steels Ltd (MSL) was incorporated on June 07, 2001. 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 corrugated sheets, galvanized plain sheets, pre-painted color coated steel coils & sheets. The company has a manufacturing capacity of 84,000 MTPA of steel cold rolling products, 24,000 MTPA galvanizing plant and 24,000 MTPA color coating line at Haldia and 30,000 MTPA galvanizing plant at Bankura. MSL is promoted by Mr. Suresh Kumar Agrawal & family.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	334.14	493.50
PBILDIT	25.06	34.51
PAT	9.14	16.66
Overall gearing (times)	0.41	0.89
Interest coverage (times)	5.66	8.81

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Not applicable

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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	-	-	-	204.50	CARE A1
Commercial Paper	-	-	-	20.00	CARE A1

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE A; Stable	-	1)CARE A; Stable (22-Sep-17)	1)CARE A; Stable (18-Jan-17) 2)CARE A (13-May-16)	1)CARE A+ (31-Dec-15) 2)CARE A+ (09-Apr-15)
2.	Non-fund-based - ST-BG/LC	ST	204.50	CARE A1	-	1)CARE A1 (22-Sep-17)	1)CARE A1 (18-Jan-17) 2)CARE A1 (13-May-16)	1)CARE A1+ (31-Dec-15) 2)CARE A1+ (09-Apr-15)
3.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (18-Jan-17) 2)CARE A1 (13-May-16)	1)CARE A1+ (31-Dec-15) 2)CARE A1+ (09-Apr-15)
4.	Commercial Paper	ST	20.00	CARE A1	-	1)CARE A1 (22-Sep-17)	-	-

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