Manaksia Steels Limited

September 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A; Negative (Single A; Outlook: Negative) and outlook revised from negative
Short Term Bank Facilities	190.00 (Enhanced from 180.00)	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
Total Facilities	**240.00 (Rs. Two Hundred Forty Crore Only)**		

Details of instruments/facilities in Annexure-1
For classification of instruments/facilities please refer to Annexure-3

Detailed Rationale & Key Rating Drivers

The revision in ratings with change in outlook assigned to Manaksia Steels Ltd (MSL) takes into account moderation in operational and financial performance in FY20 (refers to period April 01 to March 31) vis-à-vis FY19 which is not in line with projected financials as envisaged for FY20. Further, the tepid near-term demand conditions on the back of a weak macroeconomic outlook following the Covid-19 pandemic is likely to have an impact on the company's scale of operations and consequently the level of profits and cash accruals. Sub-optimal utilisation of assets is also likely to adversely impact the business returns of the company. However, given the conservative capital structure, the debt protection metrics and liquidity position of the company would remain healthy.

The rating continues to draw strength from long experience of the promoters in steel industry, strategic location of the plant and satisfactory financial risk profile. The above strengths are constrained by small scale of operations, geographical concentration risk, profitability susceptible to volatility in prices of raw-materials, exposure to foreign exchange fluctuation risk and cyclicality associated with the steel industry.

Rating Sensitivities

Positive Factors

- Increase in scale of operations beyond Rs.800 crore and profitability margin beyond 8%.
- Diversification of customers in export as well as domestic market
- Sustenance of capital structure and TD/GCA below 0.20x and 2x respectively

Negative Factors

- Decline in scale of operations below Rs.400 crore and operating profitability below 3%
- Deterioration of capital structure and TD/GCA beyond 0.90x and 6x respectively
- Worsening of operating cycle beyond 80 days

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.

Satisfactory financial risk profile: Overall gearing though moderated but remained comfortable at 0.39x as on Mar 31, 2020 as against 0.19x as on Mar 31, 2019. TD/GCA moderated and stood at 4.81x in FY20 as against 2.12x in FY19.

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

Key Rating Weaknesses

Moderation in operational and financial performance in FY20: The Company reported a decline of 30% and 45% in total operating income and PBILDT respectively in FY20 as against the projected financials for FY20.
The combined capacity utilization of the manufacturing facilities (Steel Cold Rolling, Galvanizing and Colour Coating) declined from 45% in FY19 to 36% in FY20. The total operating income of MSL declined y-o-y by ~29% in FY20 mainly on account of decline in trading sales as well as manufacturing sales. PBILDT margin of the company slightly moderated from 4.18% in FY19 to 3.47% in FY20. Interest coverage remained stable at 10.75x in FY20 (10.56x in FY19). In FY20, the company reported GCA of Rs.15.67 crore vis-à-vis nil term debt repayment.

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.487.80 crore and Rs.268.66 crore respectively in FY20 (Rs.688.71 crore and Rs.221.08 crore in FY19).

Geographical concentration risk: MSL's export revenue is mainly driven by supply of HR Coils to its group company based in Nigeria. In FY20, its share of turnover to Nigeria stood at 51% (58% in FY19).

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 FY20 (as against ~80% in FY19). The major raw materials are HR Coils & Zinc. 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 majority (~51% in FY20) of its raw material requirement from Japan & Singapore for manufacturing sales made in domestic market. Apart from this, the company is also engaged in trading sales to group company based in Nigeria (50% of total revenue in FY20 vis-à-vis 58% in FY19).
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.2.52 crore in FY20 vis-à-vis Rs.5.65 crore in FY19.

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 prevailing slowdown in automobile sector is one of the key reasons for poor performance of steel sector in FY20. 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: Recovery in domestic demand has been slow due to migration of labour, supply-chain disruptions, prevailing lockdown in many cities etc. CARE expects domestic steel demand to recover only post monsoon led by improvement in infrastructure activities and expectation of increase in automobiles production. Demand from construction sector is expected to take longer to recover. However, higher exports, lower raw materials prices and better availability of domestic coal is expected to provide much needed relief to steel players grappling with destruction in domestic demand and low realisations.

Liquidity: Adequate

The company's liquidity position is adequate characterized with gross cash accruals of Rs.15.67 crore in FY20 vis-à-vis nil debt repayment obligations and 4% utilization of its working capital limits (sanctioned CC limit of Rs.50 crore) over the last 12 months ended July, 2020. The company has fixed deposits of Rs.45.14 crore as on August 31, 2020. The company has not availed any deferment of interest on its CC facility as per COVID relief measure announced by RBI.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Complexity Level of Rated Instruments

[Rating Methodology - Manufacturing Companies]
[Rating Methodology - Steel Companies]
[Criteria for Short Term Instruments]

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 sheets, galvanized plain & corrugated sheets and colour coated sheets. The company has a manufacturing capacity of 84,000 MTPA of steel cold rolling sheets, 36,000 MTPA of galvanizing sheets and 24,000 MTPA of 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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	688.71	487.80
PBILDT	28.78	16.93
PAT	10.32	8.70
Overall gearing (times)	0.19	0.39
Interest coverage (times)	10.56	10.75

A: Audited

Status of non-cooperation with previous CRA: Nil
Any other information: Nil
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	-	-	-	190.00	CARE A2+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE A-; Stable	-	1)CARE A; Negative (19-Nov-19) 2)CARE A; Stable (28-Jun-19)	1)CARE A; Stable (06-Jul-18)	1)CARE A; Stable (22-Sep-17)
2.	Non-fund-based - ST-BG/LC	ST	190.00	CARE A2+	-	1)CARE A1 (19-Nov-19) 2)CARE A1 (28-Jun-19)	1)CARE A1 (06-Jul-18)	1)CARE A1 (22-Sep-17)
3.	Commercial Paper	ST	-	-	-	1)Withdrawn (28-Jun-19)	1)CARE A1 (06-Jul-18)	1)CARE A1 (22-Sep-17)

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

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

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

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