Manaksia Steels Limited

November 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	50.00	CARE A; Negative (Single A; Outlook: Negative)	Reaffirmed with outlook revised from stable
Short term Bank Facilities	180.00	CARE A1 (A One)	Reaffirmed
Total Facilities	230.00 (Rs. Two hundred thirty crore only)		

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 deterioration in financial performance in Q2FY20 (refers to period July 01 to September 30), decline in capacity utilization in Q2FY20, 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.

Outlook:

The Outlook has been revised from 'Stable' to 'Negative' on account of likely non-achievability of projected financials for FY20. The outlook shall be revised to 'Stable' if the company is expected to meet its projections for FY20 as envisaged.

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: The capital structure of the company continued to remain comfortable. Overall gearing though deteriorated to 0.32x as on September 30, 2019 (0.19x as on March 31, 2019) stood comfortable.

Key Rating Weaknesses

Deterioration in financial performance in Q2FY20: In Q2FY20, the total operating income of MSL declined q-o-q and y-o-y by 26.62% and 12.46% respectively to Rs.93.75 crore. PBILDT margin of the company turned negative in Q2FY20 in view of higher decline in sales realization vis-à-vis raw material prices leading to under absorption of fixed overheads. In H1FY20, the company reported loss of Rs.0.26 crore on a total operating income of Rs.221.51 crore as against profit of Rs.3.38 crore on total operating income of Rs.294.24 crore in H1FY19.

Decline in capacity utilization: The capacity utilization of Steel Cold Rolling and Galvanizing Plant declined in Q2FY20 vis-à-vis Q1FY20 on the back of low demand due to monsoon season as well as prevailing economic slowdown. The company is not operating the galvanizing plant at Bankura in view of low demand for the product. However the capacity for colour coating line has increased from 46% in Q1FY20 to 50% in Q2FY20.

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.

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

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 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: The steel demand is expected to accelerate after the completion of monsoon season as construction activities will see a pickup in pace. India's steel consumption is expected to grow by 5%-6% on the back of government's expenditure focus towards infrastructure development and construction. Also, likely recovery in automotive industry during H2FY20 is expected to provide some support to the flat steel products' prices sequentially. The price increase going forward however is expected to be moderate. Resultantly, the prices of flat products are expected to decline by 4%-5% and that of long products are likely to fall at a slower pace of 2%-3% during FY20 on a yearly basis.

Liquidity: Adequate. Liquidity is marked by gross cash accruals of Rs.2.71 crore in H1FY20 against nil repayment obligations. MSL had free cash & cash equivalents of Rs.54.90 crore as on Nov 12, 2019. The average working capital utilization of the company stood comfortably at 0.50% for last 12 months ended Oct'2019 & 36.10% for non-fund based for last 12 months ended Sep'2019.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Rating Methodology – Steel Sector
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; Negative
Non-fund-based - ST-BG/LC	-	-	-	180.00	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 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; Negative	1)CARE A; Stable (28-Jun-19)	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 (28-Jun-19)	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)Withdrawn (28-Jun-19)	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.*

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