Panchmahal Steel Limited

September 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	55.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	92.00	**CARE A4+ (A Four Plus)**	Reaffirmed
Total Facilities	**147.00 (Rupees One Hundred Forty Seven Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Panchmahal Steel Limited (PSL) continue to be constrained by susceptibility of its profitability to volatility in raw material prices and foreign exchange fluctuations, weak debt coverage indicators on back of its thin cash accruals, its moderate liquidity along with its working capital intensive nature of operations and its presence in a intensively competitive and cyclical steel products industry.

The ratings, however, continue to derive strength from PSL's established operations in the manufacturing of wide range of stainless steel (SS) long products along with its partially backward integrated facility and infusion of funds by promoters to support its business operations.

Ability of PSL to increase its scale of operations along with substantial improvement in profitability while effectively managing its working capital requirements and maintaining its moderate leverage would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Susceptibility of profitability to volatility in raw material prices and foreign exchange fluctuation risk: PSL's major raw materials constitute stainless steel scrap, nickel and ferro-chrome. Prices of steel scrap and nickel are inherently volatile, which exposes PSL's profitability to adverse movement in raw material prices. Further, PSL does not have any active hedging policy for its import obligations, which exposes its profitability to adverse movement in foreign exchange rates.

Moderate liquidity along with working capital intensive nature of operations: PSL's liquidity remained moderate with almost full utilization of its fund based as well as non-fund based working capital limits for the twelve months ended July 2019. This is largely driven by PSL's working capital intensive nature of operations with significant investment required in inventory on account of its conversion nature of its business, lead time in procurement of imported raw materials and maintenance of sizeable finished goods inventory for large range of products. Further, while PSL's operating cycle remained moderate at 55 days in FY19 (60 days in FY18), the long inventory holding period was offset by way of sizeable credit availed from suppliers (81 days of creditors period in FY19), a majority of which availed on the basis of letter of credit from lenders due to its significant imports and limited bargaining power in the market for raw materials. PSL's current ratio remained low at 1.12x as on March 31, 2019. However, PSL did not have any long term debt with scheduled payment outstanding as on June 30, 2019, which provides support to its liquidity to some extent.

Thin cash accruals leading to weak debt coverage indicators: During FY19, PSL reported 14% y-o-y growth in its total operating income (TOI) with higher sales realizations for its products while volume growth remained muted. While the conversion spread expanded in FY19, PBILDT margin remained stable at 5.43% for FY19 with growth in sales realizations. PSL's PAT margin remained thin but stable at 0.56% during FY19. Further, the company's cash accruals remained thin with a GCA of Rs.11.44 crore during FY19, translating into weak debt coverage indicators marked by a TD/GCA of 10.74x as on March 31, 2019. However, PSL's overall gearing improved to 0.99x as on March 31, 2019 (1.16x as on March 31, 2018) with reduction in working capital borrowings as on March 31, 2019 reflecting the decrease in its receivables as on FY19 end (compared with previous year end). Further, during Q4FY19 and Q1FY20, PSL reported net loss on account of reduction in its conversion spread, underlining its limited bargaining power in the competitive stainless steel products industry.

Key Rating Strengths

Established operations in the stainless steel long products: PSL has an established track record of operations of over four decades in the manufacturing of stainless steel long products. It also has backward integration facility for stainless

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

steel melting shop, rolling mill and cold finishing facility for producing billets, which are then captively consumed for manufacturing bars, rods, coils and wires.

Infusion of funds by promoters to support operations: The promoters of PSL have supported PSL's business operations by way of infusion of funds in the form of inter-corporate deposits (ICDs), amidst its thin cash accruals. The balance of these ICDs stood at Rs.9.71 crore as on June 30, 2019. Apart from these ICDs, PSL does not have any long term debt on its books, translating into no scheduled repayment obligation which provides some comfort in a cyclical and competitive steel industry.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios - Non- Financial Sector

About the Company
Incorporated in 1972, Panchmahal Steel Limited (PSL) is engaged in manufacturing of stainless steel (SS) 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, 2019. 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 of PSL are tabulated below:

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	400.20	454.87
PBILDT	20.79	24.68
PAT	0.55	2.56
Overall gearing (times)	1.16	0.99
Interest coverage (times)	1.61	1.81

A – Audited;

Further, as per the provisional results of Q1FY20, PSL reported a total operating income of Rs.107.65 crore and net loss of Rs.0.54 crore, compared with a total operating income of Rs.108.09 crore and PAT of Rs.1.40 crore in Q1FY19.

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-Long Term	-	-	-	55.00	CARE BB+; Stable
Non-fund-based-Short Term	-	-	-	92.00	CARE A4+

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-Long Term	LT	55.00	CARE BB+; Stable	-	1) CARE BB+; Stable (24-Sep-18)	1) CARE BB+; Stable (22-Aug-17)	1) CARE BB+; Stable (07-Mar-17)
2.	Non-fund-based-Short Term	ST	92.00	CARE A4+	-	1) CARE A4+ (24-Sep-18)	1) CARE A4+; Stable (22-Aug-17)	1) CARE A4+; Stable (07-Mar-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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