Panchmahal Steel Limited

September 21, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	5.50	**CARE BB; Stable (Double B; Outlook Stable)**	Assigned
Long-term Bank Facilities	55.00	**CARE BB; Stable (Double B; Outlook Stable)**	Revised from CARE BB+; Stable (Double B Plus; Stable)
Short-term Bank Facilities	92.00	**CARE A4 (A Four)**	Revised from CARE A4+ (A Four Plus)
Total Facilities	**152.50 (Rupees One Hundred Fifty Two Crore and Fifty Lakh only)**		

Details of instruments/facilities in Annexure-1;

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Panchmahal Steel Limited (PSL) takes into account significant dip in company's total operating income (TOI) during FY20 (refers to period April 1 to March 31) and Q1FY21, resulting in cash losses and further weakening of debt coverage indicators.

The ratings continue to remain constrained on account of susceptibility of company's profitability to volatility in raw material prices and foreign exchange fluctuation risk, its presence in an intensively competitive and cyclical steel processing industry and its stretched liquidity.

The ratings, however, continue to derive strength from PSL's established operations in the manufacturing of wide range of stainless steel long products along with its partially backward integrated facility, infusion of funds by promoters to support the business operations and its moderate capital structure which however witnessed deterioration in recent quarters.

Rating Sensitivities

Positive sensitivities:

- Increase in TOI through healthy volume driven growth, along with improvement in PBILDT margin to more than 6% on sustained basis
- Improvement in overall gearing to below unity, on sustained basis
- Contraction of operating cycle to less than 60 days on sustained basis with rationalisation of inventory levels

Negative sensitivities:

- Continued operating and cash losses
- Any large size debt funded capex resulting in moderation in capital structure and liquidity
- Elongation of operating cycle to more than 120 days on sustained basis with increased dependence on external debt

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant moderation in income during FY20 and Q1FY21; resulting in cash losses

PSL's total operating income (TOI) declined significantly by 27% y-o-y during FY20, primarily due to a 26% dip in sales volume due to general slowdown in the economy; while sales realisation largely remained stable during the year.

PBILDT margin also witnessed sharp decline of 403 bps during FY20 to 1.39% with decline in TOI; alongwith continued reduction in conversion spread underlining company's limited bargaining power in the competitive stainless steel products industry. Consequently, company reported cash loss of Rs.7.58 crore during the year.

Moderation in the performance continued during Q1FY21 with around 58% y-o-y dip in TOI during Q1FY21 to Rs.44.93 crore, further aggravated by the disruptions caused by the outbreak of Covid-19 pandemic which halted the operations of the company from last week of March 2020 till end of April 2020. With this, PSL reported operating loss of Rs.0.34 crore during Q1FY21 and cash loss cash of Rs.3.25 crore (as against cash profit Rs.1.34 crore in Q1FY20). Post Q1FY21, with gradual resumption of economic activities, company registered growth in its monthly sales and is also expected to

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

benefit from reduced interest costs on its foreign currency borrowings; however sustenance of income revival and a meaningful recovery in profitability shall remain crucial from credit perspective.

Weak debt coverage indicators
Company's debt coverage indictors have remained subdued over last few years owing to its restricted profitability and high debt levels, as indicated by a total debt to gross cash accruals (GCA) of over 10x and PBILDT interest coverage of below 2x, during FY19. With a significant dip in income and profitability in recent quarters, PBILDT interest coverage witnessed a sharp moderation falling below unity, while company also registered cash losses weakening its overall credit profile.

Susceptibility of profitability to volatility in raw material prices and foreign exchange fluctuation risk PSL's major raw materials constitute of stainless steel scrap, nickel and ferro-chrome, prices of which are inherently volatile, which exposes PSL's profitability to adverse movement in raw material prices. PSL imports the raw material from various countries (imports formed around 50-60% of its total raw material consumption), whereas its sales are majorly in domestic market with exports in range of 20 to 30% of its TOI. This exposes PSL's profitability to exchange rate fluctuations since PSL does not hedge its import obligation, though partial natural hedge is available through exports.

Presence in a highly competitive and cyclical stainless steel industry
Products of PSL are specialized stainless steel products such as stainless steel wire, bright bar and wire rod used in various industries, with automobiles and capital goods being large demand segments. Thus, demand for such products is largely linked to the demand in these segments which closely follow the macroeconomic cycle and thus are cyclical in nature.
Furthermore, presence of a large number of unorganized players in the stainless steel products manufacturing industry results in limited bargaining power of the players, thus restricting their profitability.

Key Rating Strengths
Established operations in the stainless steel long products and experienced promoters
PSL has an established track record of operations of over four decades in the manufacturing of stainless steel long products such as bars, rods, coils and wires. It also has a backward integration facility for stainless steel melting shop, rolling mill and cold finishing facility for producing billets, which are then captively consumed for manufacturing its end products. PSL also has an established marketing network in both domestic and export markets.
PSL's promoters also possess vast experience of over four decades in the stainless steel industry and have demonstrated their support towards PSL by way of fund infusion in the form of inter-corporate deposits to support business operations, which stood at Rs.10.23 crore as on March 31, 2020 (Rs.9.78 crore as on March 31, 2019).

Moderate capital structure; albeit with deterioration in recent quarters
Overall gearing of PSL deteriorated to 1.15x as on March 31, 2020 and further to 1.25x as on June 30, 2020 compared to 0.99x as on March 31, 2019 owing to erosion in networth on account of losses; albeit remained moderate. Company's debt profile mainly consists of working capital borrowings required to fund its high inventory holding period, alongwith unsecured loans from promoters / related parties. It does not have any external long term debt (except for the additional fund-based line availed recently).

Liquidity – Stretched
Liquidity of PSL remained stretched, market by elongation in the gross operating cycle to 175 days during FY20 (as against 136 days during FY19), translating into largely full utilisation of its fund based working capital limits for trailing twelve months ended August 2020. This limits the overall financial flexibility of the company, given its inherent thin profitability. Gross operating cycle remains high mainly due to high inventory holding period; while net operating cycle remains moderate (82 days in FY20; 55 days in FY19) with availment of credit of around 80-100 days. With cash losses registered in recent quarters, company's liquidity has been aided by positive cash flow from operations with timely realization from receivables. To further aid the liquidity, PSL availed additional fund based limit of Rs.5.50 crore, to be repaid in 18 equal monthly instalments from H2FY20, and had also availed a six month interest moratorium for its cash credit facility from March 2020 to August 2020, which is converted to funded interest term loan (FITL). This apart, company also receives partial payments backed by LCs, discounting of which aids liquidity. Going forward, company has scheduled repayments (for the additional facilities) in the range of Rs.2-4 crore; and generation of adequate accruals shall remain crucial for company's liquidity profile given its high working capital requirements.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology-Steel Companies

About the company
Incorporated in 1972, Panchmahal Steel Limited (PSL) is engaged in manufacturing of stainless steel 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, 2020. 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 (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	454.87	331.20
PBILDT	24.68	4.62
PAT	2.56	(32.22)
Overall gearing (times)	0.99	1.15
Interest coverage (times)	1.81	0.34

A – Audited; figures in bracket indicate loss

Further, as per the provisional results of Q1FY21, PSL reported a total operating income of Rs.44.93 crore with a net loss of Rs.5.12 crore, as against total operating income of Rs.107.15 crore and net loss of Rs.0.53 crore in Q1FY20.

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
Fund-based - LT-Working Capital Demand loan	-	-	March 2022	5.50	CARE BB; Stable

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-Long Term	LT	55.00	CARE BB; Stable	-	1)CARE BB+; Stable (19-Sep-19)	1)CARE BB+; Stable (24-Sep-18)	1)CARE BB+; Stable (22-Aug-17)
2.	Non-fund-based-Short Term	ST	92.00	CARE A4	-	1)CARE A4+ (19-Sep-19)	1)CARE A4+ (24-Sep-18)	1)CARE A4+; Stable (22-Aug-17)
3.	Fund-based - LT-Working Capital Demand loan	LT	5.50	CARE BB; Stable	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based-Short Term	Simple

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
Mr. Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Ms. Nikita Goyal
Contact No.: 079-40265670
Email ID – nikita.goyal@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID – deepak.prajapati@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**