

October 25, 2022

Metalxperts (India) Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund Based/ Cash Credit	6.80	6.80	[ICRA]BB(Stable); reaffirmed
Long-term Unallocated	8.20	8.20	[ICRA]BB(Stable); reaffirmed
Total	15.00	15.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to consider the established track record and extensive experience of the promoters in the steel trading business and the company's strong relationship with customers that ensures repeat orders. ICRA notes that the promoters have a strong understanding of the requirements of its key customers, which reduces the offtake risks to a large extent.

The rating also takes into account the company's established position as an authorised dealer of reputed primary steel producers like JSW Steel, Jindal Steel & Power, Arcelor Mittal Nippon Steel India Limited etc. which ensures uninterrupted supply of steel trading materials. As per ICRA's estimates, while the firm's turnover is likely to witness a significant growth in FY2023, its margins would remain under pressure.

The rating, however, remains constrained by its weak financial profile, characterised by weakened capital structure and debt coverage metrics, which can be mainly attributed to high creditors, fresh channel finance limits from financial institutions and low net worth of the company. Further, the company remains susceptible to the intense competition and thin operating margins inherent in the trading business. The rating also considers volatility in cash flows due to the cyclical nature of the steel industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company would continue to benefit from established track record and extensive experience of the promoters and strong relationship with its customers and suppliers, which would support the company's revenue growth.

Key rating drivers and their description

Credit strengths

Established track record and experience of promoters in steel trading business – Incorporated initially as a limited liability partnership firm in 2017, the company trades in a wide range of steel products like TMT bars and other structural steel products like wired rods, angles, channels, hot-rolled coils, beams etc. The promoters have extensive experience of more than two decades and an established track record in the steel trading business.

Strong relationship with customers and suppliers – Long experience of the promoters in the steel trading industry has enabled the company to develop strong relationships with its customers, which has reduced the off-take risks to some extent. As a result, the company has developed a good understanding of customers' requirements, resulting in repeat orders from key clients. The company has also established four subsidiaries in FY2022, in which the industry experts were made partners for dealing in value-added steel products. The company is an authorised distributor of large steel producers like JSW Steel, Jindal

Steel & Power, Vedanta, Asian Colour Coated Ispat Limited and Arcelor Mittal Nippon Steel India Limited from which it procures the major part of its products, ensuring uninterrupted supply.

Credit challenges

Weak capital structure and debt coverage metrics – The company's working capital cycle weakened in FY2022 due to higher inventory level of Rs. 31.22 crore as on March 31, 2022. Moreover, with thin profitability and increased debt, the capital structure and the coverage indicators further weakened in FY2022, as reflected in the total outside liabilities vis-à-vis the tangible net worth (TOL/TNW) ratio of 4.1 times as on March 31, 2022 against 2.1 times as on March 31, 2021 and lower interest coverage of 2.35 times in FY2022 against 4.8 times in FY2021. The deterioration can be mainly attributed to high creditors, fresh channel finance limits from financial institutions and low net worth of the company.

Intense competition and thin operating margins inherent in the trading business – The steel trading industry is fragmented and characterised by intense competition. The company has many organised and unorganised players as its competitors, which restricts its pricing flexibility. However, the company's established track record of operations and association with reputed companies such as JSW Steel and Jindal Steel & Power for procuring traded goods give it an edge over its peers.

Cyclicality inherent in steel industry likely to keep cash flows volatile – Metalxperts operates in a cyclical industry, which is vulnerable to any adverse change in the demand-supply dynamics in the steel sector and the end-user industry.

Liquidity position: Stretched

Metalxperts' liquidity position is stretched with weak cash flow from operations due to low profitability and relatively higher working capital requirements. The retained cash flows have further remained negative during the period under review due to continuous capital withdrawals by the partners. ICRA, however, notes that the entity has secured an additional channel financing limit of Rs. 30.00 crore in FY2023, which is likely to assist it in meeting strong demand from its customers in FY2023. Moreover, need-based support from the promoters in the form of unsecured loans would continue to provide some comfort.

Rating Sensitivities

Positive factors – ICRA could upgrade the company's rating if there a consistent increase in revenue, profitability and cash accruals, resulting in an improved liquidity and net worth base on a sustained basis.

Negative factors – Pressure on the company's rating could arise if there is a significant decline in the revenues or a stretch in the working capital cycle, resulting in further weakening of liquidity. A substantial increase in debt, leading to a deterioration in the capital structure on a sustained basis, will also be a credit negative. Specific credit metrics that could trigger a downgrade include OPBDITA/ Interest of less than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Established in 2017 as a limited liability partnership firm, Metalxperts (India) Private Limited trades in a wide range of steel like TMT bars, cold-rolled coils, hot-rolled plates, hot-rolled coils, mild steel bars and other structural products. The constitution of

the firm has been recently changed to private limited from LLP with no change in the promoters, which is effective from September 22, 2022. The entity's registered office is in Mumbai and operates from a branch office in Ahmedabad, Gujarat.

Key financial indicators

	FY2021	FY2022
Operating income (Rs. crore)	213.65	508.46
PAT (Rs. crore)	4.0	5.9
OPBDIT/OI	2.7%	1.5%
PAT/OI	1.9%	1.2%
Total outside liabilities/Tangible net worth (times)	2.1	4.1
Total debt/OPBDIT (times)	0.7	3.7
Interest coverage (times)	4.8	2.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on date (Rs. crore)	Date and Rating in	Date & Rating		
						FY2022	FY2021	FY2020
					Oct 25, 2022	Oct 08, 2021	-	-
1	Fund Based/ Cash Credit	Long-term	6.80	NA	[ICRA]BB(Stable)	[ICRA]BB (Stable)	-	-
2	Unallocated	Long-term	8.20	NA	[ICRA]BB(Stable)	[ICRA]BB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Cash Credit	NA	NA	NA	6.80	[ICRA]BB(Stable)
NA	Unallocated Limits	NA	NA	NA	8.20	[ICRA]BB(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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