

January 12, 2024

## Metalxperts (India) Private Limited: Rating downgraded to [ICRA]BB- (Stable)

### 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); downgraded from [ICRA]BB (Stable)
Long-term Fund-based Unallocated	8.20	8.20	[ICRA]BB- (Stable); downgraded from [ICRA]BB (Stable)
<b>Total</b>	<b>15.00</b>	<b>15.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating downgrade takes into consideration the moderation in Metalxperts (India) Private Limited's (MXI) profitability and a deterioration in its debt protection metrics, which would remain under pressure, though with some improvement in FY2024. The company's profitability declined significantly in FY2023 on account of adverse regulatory changes related to steel exports in Q1 FY2023, which resulted in sharp volatility. Consequently, the company reported net losses in FY2023. Further, due to decline in profitability, increased debt and interest cost, the debt protection metrics of the company deteriorated significantly in FY2023, as reflected by the interest coverage of 0.3 times in FY2023 against 1.7 times in FY2022. While the company has been registering growth in its revenue, its profitability has remained under pressure, which is unlikely to improve in the near term. However, the company is likely to book profit in FY2024 against losses made in the previous year, as per ICRA's estimates. 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. Further, any adverse regulatory change by the Government could impact the company's business and profitability.

The rating, however, continues to derive strength from 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 largely reduces the offtake risks. Consequently, the company would continue to register growth in its scale, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company would continue to benefit from the 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 several business ventures, in which the industry experts are partners for dealing in

value-added steel products. The company has been realising returns from these business ventures, which supports its accruals to that extent. The company is the 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 a major part of its products, ensuring uninterrupted supply.

### Credit challenges

**Weakened financial profile** – The company's financial performance deteriorated in FY2023 due to sharp volatility in steel prices in H1 FY2023, which resulted in low operating profitability and net losses of Rs. 0.88 crore. The sharp volatility in steel prices can be attributed to imposition of export duty on some steel products by the Government of India in Q1 FY2023. Subsequently steel prices stabilised, and the company is likely to report profits in FY2024, though the profit margin would remain under pressure, as per ICRA's estimates. Nevertheless, the company continues to register growth in its revenue, as reflected by its increasing turnover in FY2023 and more than 15% increase likely in FY2024. Owing to a decline in its profitability, increased debt levels and interest, the company's capital structure and the coverage indicators further weakened in FY2023, as reflected by the total outside liabilities vis-à-vis the tangible net worth (TOL/TNW) ratio of 14.1 times as on March 31, 2023, against 4.1 times as on March 31, 2022, and lower interest coverage of 0.3 times in FY2023 against 1.7 times in FY2022.

**Intense competition and thin operating margins inherent in the trading business** – The steel trading industry is fragmented and is characterised by intense competition. The company has many organised and unorganised players as its competitors, which restrict its pricing flexibility and limits its operating margin. 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.

**Cyclical nature inherent in steel industry likely to keep profitability and 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. The company has also started importing steel products, which would support its business and profitability to an extent. However, it will remain exposed to risks associated with price volatility.

**Exposed to regulatory risk** – The steel trading industry is highly exposed to the inherent regulatory risk, like the change in government policies and regulations including tariffs and trade barriers, as witnessed in the first quarter of FY2023. Owing to an increase in the export duty on some steel products, the steel prices witnessed sharp volatility due to which the company's profitability was adversely impacted in FY2023. Any adverse regulatory change in future by the Government could impact the company's business and profitability.

### Liquidity position: Stretched

Metalxperts' liquidity position is stretched with negative cash flow from operation expected in FY2024 on account of relatively lower profitability and large working capital requirements. ICRA notes that the bank limits of the company have been enhanced recently, which provides comfort to its liquidity to an extent. However, utilisation of the bank limits is likely to remain high in the near term, considering the sharp growth in its scale. The company receives support from the promoters in the form of unsecured loans, which have flexible repayment terms. However, such loans are interest bearing, which results in high interest outflow for the company. Nevertheless, 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 is a consistent increase in revenue, profits and cash accruals, resulting in an improved profitability, 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 and financial profile. 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 rating downgrade include OPBDITA/ Interest of less than 2 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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 products like TMT bars, cold-rolled coils, hot-rolled plates, hot-rolled coils, mild steel bars and other structural items. The constitution of the firm has been changed to private limited from LLP with no change in the promoters in FY2022. The entity’s registered office is in Mumbai and operates from a branch office in Ahmedabad, Gujarat.

## Key financial indicators (audited)

	FY2022	FY2023
Operating income (Rs. crore)	508.5	716.2
PAT (Rs. crore)	4.6	-0.9
OPBDIT/OI	1.5%	0.3%
PAT/OI	0.9%	-0.1%
Total outside liabilities/Tangible net worth (times)	4.1	14.1
Total debt/OPBDIT (times)	3.7	34.3
Interest coverage (times)	1.7	0.3

Source: MXI; ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on date (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jan 12, 2024	Oct 25, 2022	Oct 08, 2021	-
1	Fund-based/ Cash Credit	Long-term	6.80	NA	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
2	Fund-based – Unallocated	Long-term	8.20	NA	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – 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: [Click Here](#)

#### Annexure I: Instrument details

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

Source: MXI

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

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