

December 04, 2024

## Dhanlaxmi Iron Industries Pvt. Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	23.00	23.00	[ICRA]BBB+ (Stable); Reaffirmed
Short term – Non-fund-based- Letter of Credit	8.00	8.00	[ICRA]A2; Reaffirmed
Short term – Interchangeable - Bank guarantee	(8.00)	(8.00)	[ICRA]A2; Reaffirmed
Long term – Unallocated	14.00	14.00	[ICRA]BBB+ (Stable); Reaffirmed
<b>Total</b>	<b>45.00</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has taken a consolidated view of Jeevaka Industries Pvt. Ltd. (JIPL) and Dhanlaxmi Iron Industries Pvt. Ltd. (DIPL; referred to as the Group hereafter), while arriving at the credit ratings, given the common management, significant operational and financial linkages and the fungibility of funds between the companies. The operations of both the companies are highly integrated because of the supply of billets from JIPL to DIPL. These entities have common management persons, who belong to the same family, and the centrally sourced raw materials.

The ratings reaffirmation factors in the Group's healthy year-on-year (YoY) operating profit growth of ~49% in FY2024, resulting in an operating profit margin of 5.55% in FY2024 compared to 3.47% in FY2023 owing to the lower cost of raw material consumed and the economies of scale. The consolidated revenue was at Rs. 1,084.76 crore in FY2024 against Rs. 1,163.89 crore in FY2023 despite an increase in sales volume.

The ratings also factor in the promoter's long experience of more than two decades in the secondary long steel manufacturing industry along with an established customer and supplier base. Further, the ratings consider the semi-integrated operational profile with a capacity to manufacture sponge iron, MS billets and value-added downstream products such as structural steel and TMT bars. Over the years, the Group has followed a calibrated approach to fund growth through a judicious mix of internal accruals/promoter funds and external borrowings. Around 55% of the outstanding debt of the Group as on March 31, 2024, comprised unsecured loan from promoters having flexibility in the repayment of principal and interest, which supports the liquidity profile.

ICRA notes that the Group has capex plans to set up a billet plant and a TMT mill, the timely commissioning of which without any cost overruns will be a key monitorable. The planned capex is expected to be around Rs. 200 crore and the capacity would be commissioned in the next 18-20 months. While these expansion plans could constrain its free cash flows and credit metrics in the medium term, they also increase the scale of operations and generate healthy profits post commissioning. Consequently, the impact of this expansion on the Group's financial profile will be a key credit monitorable. The Group's current debt profile and credit metrics remain comfortable, characterised by healthy cash accruals and a low gearing of 0.4 times as on March 31, 2024.

The ratings, however, remain constrained by the Group's moderate operating profitability owing to a decline in steel prices, high dependence on costlier power from the grid, and in-bound freight costs for input materials, especially iron ore. The ratings are also tempered by the elevated working capital blockage due to high receivables. The ratings are further constrained by intense competition in the fragmented and commoditised steel industry, which limits its pricing flexibility, and the inherent cyclicity in the steel industry, exposing the Group to volatile cash flows. The ratings are also constrained by the Group's

exposure to geographical concentration risk, given its high dependence on the southern region. Nevertheless, its established and reputed customer base mitigates such risk to an extent.

The Stable outlook on the [ICRA]BBB+ rating reflects that the Group will be able to maintain its business position, given its established track record of operations in the steel business and will continue to benefit from its strong operating profile, supported by steady demand for its products.

## Key rating drivers and their description

### Credit strengths

**Semi-integrated operations with capacity to manufacture sponge iron, MS billets, structural steels and TMT bars** – JIPL has manufacturing facilities for sponge iron, which along with MS scrap serves as a feedstock for producing MS billets. Backward integration into captive sponge iron making gives the Group a cost advantage over other secondary steel producers, which are dependent on sourcing costlier sponge iron from the market. The manufactured MS billets are used to produce structural steel products in JIPL and TMT bars in DIPL. Besides internal consumption of billets, the company sells them to other steel manufacturers, including DIPL. JIPL has a capacity to manufacture 90,000 metric tonnes per annum (MTPA) of sponge iron, 2,10,000 MTPA of billets and 1,20,000 MTPA of structural steels. DIPL has a manufacturing capacity of 1,44,000 MTPA TMT bars. These products are sold by DIPL and JIPL under DIIL brand.

**Extensive experience of promoters; established customer base** – The promoters of the Group have more than four decades of experience in the iron and steel industries. Given the vast experience of the promoters in the industry and the established operational track record, the company has been able to develop a wide network of customers. The counterparty risk for the Group is low due to its established and reputed customer base.

**Moderate financial risk profile** – The Group's debt levels mainly comprise unsecured loans from promoters (~55%), working capital borrowings (~31%) and term loans (~14%) as on March 31, 2024. The gearing levels remained comfortable at 0.45 times with an interest coverage of 6.6 times and DSCR of 4.9 times in FY24. The TD/OPBDITA stood at 1.9 times in FY2024. ICRA notes that the Group has debt-funded capex plans for setting up a billet plant and a TMT mill, the impact of which on the credit metrics will be a key credit monitorable.

**Ability to remain profitable across business cycles** – The Group has been able to report net profits across all business cycles, reflecting its resilience to the cyclical downturns. In addition, the competitive capital cost of the steel making assets and the associated low capital charges favourably support the net profit margin.

### Credit challenges

**Large planned capex to moderate coverage metrics in the medium term** – ICRA notes that the Group has debt-funded capex plans for setting up a billet plant and a TMT mill, the impact of which on the credit metrics will be a key credit monitorable. While these expansion plans could constrain its free cash flows in the medium term, they will increase the scale of operations and generate healthy annual savings post commissioning. At present, the projects are in a nascent stage of development and the capital deployment plan is yet to be finalised. The planned capex is expected to be around Rs. 200 crore and the capacity would be commissioned in the next 18-20 months.

**High working capital intensity** – The Group's working capital cycle remains high, reflected in NWC/OI of ~24%, which is attributed to elongated receivable days and inherent seasonality of operations associated with the business.

**Moderate operating profit margin owing to decline in steel prices** – The consolidated operating margins of the Group are expected to moderate in FY2025 owing to a decline in steel prices, resulting in lower realisation. Further, being a secondary steel manufacturer, JIPL's major costs are raw material and power. The Group is dependent on power supply from the grid, which increases the power cost owing to high tariffs.

**Exposure to geographical concentration risks, inherent cyclical and intense competition in the fragmented long-steel business** – The Group’s operations are mainly concentrated in the southern region, exposing it to geographical concentration risk. Moreover, its revenues are concentrated in the power transmission, real estate, and construction sectors. A slowdown in these sectors could result in an overall decline in revenues. The fragmented long steel manufacturing businesses is characterised by intense competition due to low product differentiation and entry barriers, which limit the pricing flexibility of the players, including that of JIPL and DIPL.

### Liquidity position: Adequate

The Group’s liquidity position is adequate, supported by healthy cash accruals and sufficient undrawn limits. The average monthly utilisation of the fund-based working capital limits, on a consolidated level, stood below 40% during August 2023 to July 2024. The Group’s low scheduled debt repayment obligations and working capital buffer supported the overall liquidity during this period.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings in case of a healthy growth in consolidated revenues and profitability on a sustained basis. A specific credit metric for upgrade includes an interest coverage of more than 5.0 times on a sustained basis.

**Negative factors** – Pressure on the ratings could arise if there is a decline in the Group’s revenues or profitability on a sustained basis. The rating may be downgraded if there are significant time and cost overruns in the planned capex, adversely impacting the Group’s financial performance and liquidity position. An interest coverage below 3.50 times on a sustained basis could also put pressure on the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Iron &amp; Steel</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of JIPL and DIPL, given the close operational, financial, and managerial linkages among them

### About the company

Dhanlaxmi Iron Industries Private Limited (DIPL) was incorporated in 1999 and is promoted by Mr. Mohan Agarwal and his family members. The company manufactures TMT bars under the brand name of DIIL. DIPL has an installed capacity for manufacturing 1,44,000 tonnes of TMT bars per annum at its manufacturing facility in Bonthapally, Telangana. DIPL procures power from Telangana Southern Power Distribution Company Limited.

### Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	1163.9	1084.8
PAT	18.0	34.6
OPBDIT/OI	3.47%	5.55%
PAT/OI	1.54%	3.19%
Total outside liabilities/Tangible net worth (times)	0.9	0.7
Total debt/OPBDIT (times)	3.3	1.9
Interest coverage (times)	3.5	6.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Type	Current (FY2025)		Chronology of rating history for the past 3 years					
		Amount Rated (Rs. crore)	Dec 4, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based-Cash credit	Long Term	23.00	[ICRA]BBB+ (Stable)	Oct 12, 2023	[ICRA]BBB+ (Stable)	Sep 12, 2022	[ICRA]BBB+ (Stable)	May 10, 2021	[ICRA]BBB+ (Stable)
						Aug 30, 2022	[ICRA]BBB+ (Stable)		
Unallocated	Long Term	14.00	[ICRA]BBB+ (Stable)	Oct 12, 2023	[ICRA]BBB+ (Stable)	Sep 12, 2022	[ICRA]BBB+ (Stable)	May 10, 2021	[ICRA]BBB+ (Stable)
						Aug 30, 2022	[ICRA]BBB+ (Stable)		
Interchangeable - Bank guarantees	Short Term	(8.00)	[ICRA]A2	Oct 12, 2023	[ICRA]A2	Sep 12, 2022	[ICRA]A2		
Non fund based - Letter of credit	Short Term	8.00	[ICRA]A2	Oct 12, 2023	[ICRA]A2	Sep 12, 2022	[ICRA]A2	May 10, 2021	[ICRA]A2
						Aug 30, 2022	[ICRA]A2		
Bank guarantees	Short Term	-				Aug 30, 2022	[ICRA]A2	May 10, 2021	[ICRA]A2

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based - Cash credit	Simple
Short term non-fund based - Letter of credit	Very Simple
Short Term Interchangeable - Bank guarantee	Very 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: [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	23.00	[ICRA]BBB+ (Stable)
NA	Short term non-fund based - Letter of credit	NA	NA	NA	8.00	[ICRA]A2
NA	Short term Interchangeable - Bank guarantee	NA	NA	NA	(8.00)	[ICRA]A2
NA	Long Term – Unallocated	NA	NA	NA	14.00	[ICRA]BBB+ (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**

Company Name	Consolidation Approach
Jeevaka Industries Private Limited	Full Consolidation
Dhanlaxmi Iron Industries Private Limited	Full Consolidation

Source: Company

## ANALYST CONTACTS

**Girishkumar Kadam**

+91 22 6114 3441

[girishkumar@icraindia.com](mailto:girishkumar@icraindia.com)

**Vikram V**

+91 40 6939 6410

[vikram.v@icraindia.com](mailto:vikram.v@icraindia.com)

**Sumit Jhunjunwala**

+91 33 7150 1111

[sumit.jhunjunwala@icraindia.com](mailto:sumit.jhunjunwala@icraindia.com)

**Prerna Aggarwal**

+91 124 4545 380

[prerna.aggarwal1@icraindia.com](mailto:prerna.aggarwal1@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.