

RATING RATIONALE

26 May 2020

Lloyds Metals and Energy Limited

Brickwork Ratings reaffirms the rating to BWR BBB- with Stable outlook and BWR A3 for the existing bank limits of Lloyds Metals and Energy Limited (“LMEL” or “the Company”).

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (January, 2019)^	Present
Fund based	95.00	95.00	Long Term	BWR BBB-/Stable (Pronounced as BWR Triple B minus) [Assigned]	BWR BBB-/Stable (Pronounced as BWR triple B minus) [Reaffirmed]
Non Fund based	5.00	5.00	Short Term	BWR A3 (Pronounced as BWR A three) [Assigned]	BWR A3 (Pronounced as BWR A three) [Reaffirmed]
Total	100.00	100.00	INR One hundred Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities are provided in Annexure-I.

^Rating was moved to rating not reviewed category in January, 2020

Rating: Reaffirmed



RATING ACTION / OUTLOOK

The rating continues to draw comfort from the established market presence of the Company supported by the extensive experience of the promoters in the iron & steel industry. The rating also derives comfort from the partially integrated nature of operations wherein the Company is engaged in manufacturing of sponge iron and also has 30MW captive power generation capacity. The Company also plans to commence mining operations in its leased mines located in Gadchiroli which will completely support the iron ore requirement for the sponge iron plant; this is expected to result in substantial improvement in the profitability margins. Further, the rating also derives comfort from the unsecured loans provided by the promoters as and when needed..

However, the rating is constrained on susceptibility of the operations & profitability to the volatility in the sponge iron & iron ore prices along with cyclicity in the steel industry. The rating is also constrained by the presence in the highly competitive and fragmented sponge iron manufacturing industry.

Outlook: Stable

Considering the established market presence, experienced promoters alongwith long standing relation with the customers, BWR believes that LMEL's business risk profile will be maintained over the near to medium term. The "Stable" outlook indicates a low likelihood of rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Established presence in the market supported by the extensive experience of promoters**

The Company has an established presence in the steel industry with an operational track record of more than four decades. LMEL mainly caters to the steel producers located in Maharashtra. Apart from sponge iron, the company also sells power generated from waste heat gases produced in sponge kilns to power trading companies.

The Company also benefits from the extensive experience of its promoter i.e. Mr. Babulal Agarwal who possesses more than five decades of experience in the steel industry, supported by a team of well qualified and experienced professionals as the second line of management.

- **Partially Integrated nature of operations**

The Company benefits from partially integrated nature of operations with the presence of sponge kilns and captive power generation capacity of 30 MW. Also, LMEL has been allotted a mining lease at Surajgarh Iron Ore Mine (Wooria Hills) over an area of 348.09 Ha situated at village Surajgarh in the Gadchiroli district, Maharashtra for a period of 20 years starting from 2007 with environmental clearance for production of 3 million MTPA. LMEL has also entered into a MDO MOU with Thriveni Earthmovers Private Limited, which is the largest mining operator in India with expectation that the mining will start in the near future. Commencement of the mining operations is expected to result in operational efficiencies and healthy profitability for the company.

- **Funding support from the promoters**

The Company benefits from the funding support provided by the promoters in the form of unsecured loans which are expected to remain in the business. Further, LMEL plans to raise funds to the tune of Rs. 18.00 crores through convertible warrants which will be subscribed by the existing promoters and Optionally Fully Convertible Debentures (OFCDs) of Rs. 19.98 crores by strategic investor "Clover Media Private Limited". The additional funds will be used to fund the working capital requirement of the Company.

Credit Risks:

- **Susceptibility of the operations and profitability to volatility in sponge iron & iron ore prices and cyclicity in the steel industry**

The Company reported a decline of around 22 percent in operating income for FY2020 over FY2019 mainly due to decline of around 16% in the average realisation and 11% in the quantity produced during FY2020 over the previous year. The slowdown in demand for steel from industries including infrastructure, construction and automobile has contributed to decline in revenue. Further, the outbreak of the COVID-19 pandemic followed by the lockdown in the country has adversely affected the operations of the Company. However steel being an essential commodity, and there being no substitute for steel for a majority of uses, the steel industry, and thereby the supporting industries like sponge iron manufacturers, are expected to do well in the coming days, especially since the Central Government has placed a high importance to infrastructure development, for which steel plays a vital part. .

- **Presence in the highly competitive and fragmented sponge iron manufacturing industry**

With the presence of around 400 sponge iron units in the country, the Indian sponge iron industry is highly fragmented. The top 20 producers contribute about 60~65% of the total production whereas the rest contributes 35~40% of the production. Hence, the pricing flexibility of the Company is restricted due to this intense competition.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). BWR has principally relied upon the standalone audited financials up to FY20, publicly available information and clarification/information provided by the Company.

RATING SENSITIVITIES

Positive:

- Significant improvement in the operating income and profitability resulting in substantial improvement in the financial risk profile and debt coverage indicators of the company.
- Efficient working capital management leading to improvement in liquidity profile

Negative:



- Significant decline in operating income and profitability leading to deterioration in debt coverage indicators
- Stretch in working capital cycle leading to deterioration in liquidity profile of the company.
- Majorly debt funded capacity expenditure plan resulting in high leveraged capital structure.

LIQUIDITY POSITION: ADEQUATE

The Company has reported net cash accruals from Rs. 30.65 crores in FY 2020 against Rs. 7.22 crores of annual debt repayments during FY 2020 and has reported net cash flow from operations of Rs. 51.56 crores during FY 2020 against negative cash flow of Rs. 38.38 crores in FY 2019. The current ratio is comfortable and the same stood at 1.56 times as on 31.03.2020. Further, the Company's average working capital limit utilisation stood at around 75 percent for the period from March, 2019 to March, 2020. The cash and bank balance stood at Rs. 18.60 crores as on 31.03.2020. Further, the repayment of around Rs. 49.70 crores is estimated to be due for the next three years. The Company's projected cash flows are adequate to cover its debt obligations for the next two to three years. The Company has opted for the moratorium period under the COVID-19 scheme.

Also, going forward the Company plans to raise funds to the tune of Rs. 18.00 crores through convertible warrants and Optionally Fully Convertible Debentures (OFCDs) of Rs. 19.98 crores to support the working capital requirements.



COMPANY PROFILE

Lloyds Metals and Energy Limited [Erstwhile Lloyds Metals & Engineer Limited] was initially incorporated as a private limited company under the name “Nagarjuna Metals and Engineer Private Limited” in the year 1977. Subsequently, in 1986 the constitution of the entity was converted into a public limited company and listed on the Bombay Stock Exchange in February, 1987 however the name was changed to Lloyds Metals & Engineer Limited in January 1990 and to the latest name in April 2011. The Company is engaged in manufacturing of sponge iron & its by products and generation/distribution of power. The by-products of the sponge iron include Char, Fly Ash, ESP Dust, Bed Material and Iron Ore Fines. The sponge iron plant is located in Chandrapur district of Maharashtra with an installed capacity of 3,00,000 metric tonnes per annum (MTPA) and also the captive power plant with a 30 MW capacity which runs on the waste heat gases produced in sponge kiln. The Company possesses certifications including ISO - 9001, 14001, OHSAS 18001 ISO 9001:2008. Sponge iron is an intermediate product; a source of metallics for secondary steel making through EAF or IF route.

The sale of sponge iron contributed around 84% whereas the power contributed around 16% to the total revenue for FY 2020. The main raw material required by the Company is iron ore and non-coking coal. The iron ore is sourced from the iron ore mine located in Surjagarh village, Gadchiroli district Maharashtra which it has leased for a period of 20 years starting from 2007. It also procures iron ore from other suppliers located in Raipur and Odisha. The Company procures coal from Western Coalfields Limited under long-term linkages. The credit period received from the suppliers ranges from 30 to 90 days. LMEL mainly caters to steel manufacturers located in the state of Maharashtra. The day to day operations of the Company are handled by Mr. Babulal Agarwal who possesses more than five decades of experience in the iron & steel industry.



KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY2019	FY2020
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	472.82	371.74
EBITDA	Rs. Crs	15.84	21.13
PAT	Rs. Crs	20.63	31.83
Tangible Net worth	Rs. Crs	108.25	144.41
Total Debt/Tangible Net worth	Times	0.85	0.83
Current Ratio	Times	2.18	1.56

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Applicable

RATING HISTORY

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	30 January 2019	2018	2017
Fund Based	Long Term	95.00	BWR BBB-/ Stable (Reaffirmed)	BWR BBB- /Stable (Assigned)	-	-
Non Fund Based	Short Term	5.00	BWR A3 (Reaffirmed)	BWR A3 (Assigned)	-	-
Total		100.00	INR One Hundred Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria for Manufacturing Companies](#)



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Lloyds Metals and Energy Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Kotak Mahindra Bank	Proposed Cash Credit	20.00	-	20.00
2.	Kotak Mahindra Bank	Term Loan I	31.50	-	31.50
3.	Kotak Mahindra Bank	Term Loan II	9.12	-	9.12
4.	CitizenCredit Co-operative Bank Limited	Term Loan	24.38	-	24.38
5.	CitizenCredit Co-operative Bank Limited	Proposed Cash Credit	10.00	-	10.00
6.	Proposed Bank	Proposed Bank Guarantee	-	5.00	5.00
TOTAL					100.00

Total Rupees One Hundred Crores only.



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