



Rating Rationale

Lloyds Metals and Energy Ltd

30 Jan 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 100.00 Crores of Lloyds Metals and Energy Ltd.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	95.00	Long Term	BWR BBB- (BWR Triple B Minus) Outlook: Stable
Non Fund Based	5.00	Short Term	BWR A3 (BWR A Three)
Total	100.00	INR One Hundred Crores Only	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY 18, provisional financials for H1 FY 19, projections for FY19 & FY20, publicly available information and information/clarifications provided by the company management.

The rating, inter-alia, factors in the relative raw material security from its captive mines, plants located in iron ore rich areas and debt coverage ratios indicating sufficient debt coverage. However, the rating is constrained on account of leveraged capital structure, exposure to increased environmental regulations, cyclical nature inherent in the metal industry, intense competition in the sector and continued low profitability.

Description of Key Rating Drivers

- **Credit Strengths:**

Raw Material Security: Operational iron mines provides the company with access to iron ore, while long term linkages for sourcing of coal ensures raw material availability.



Location: Its plants are located in Gadchiroli and Chandrapur, known for its richness of iron ore, minerals and other key natural resources. However, due to Gadchiroli's limited accessibility results in plants remaining idle during the rainy season.

Coverage Ratios: The debt coverage ratios of ISCR & DSCR indicate sufficient coverage for repayment of debt obligations.

- **Credit Risks:**

Environmental Regulations: The sponge iron in India is manufactured largely using coal as against the global practice of using gas, an environmentally cleaner alternative. Thus, any regulations pertaining to environmental concerns may affect the day-to-day operations of the plant. However, the company is consistently investing substantial amounts in innovative techniques enabling it well to adapt to any regulatory change.

Cyclical: The sponge iron industry, being a commodity based industry is directly linked to economic cycles in the country as well as globally.

Intense competition: The sponge iron industry is largely a fragmented industry with numerous unorganised players, thus resulting in a highly competitive industry.

Profitability: Profitability at Operating level as well as net profit margin remained low. However, considering its iron ore plant operational, the profitability is projected to improve with efficient sourcing of raw material.

Analytical Approach

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).

Rating Outlook: *Stable*

BWR believes the **Lloyds Metals and Energy Ltd** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down, profit margins show lower than expected figures, any disruption in operation of mines affects raw material availability as well as capital structure leveraged further .

About the Company

Lloyds Metal and Energy Limited (LMEL), incorporated in April 1977, operates in the iron and steel



sector manufacturing Direct Reduced Iron, also known as sponge iron and its by products like char, fly ash, ESP dust, bed materials and iron ore fines. LMEL has its iron ore mining plant and mineral based steel plant in Gadchiroli district of Maharashtra while also recently setting up a captive power plant in Chandrapur, Maharashtra. The company sources iron ore from the land mine it has leased located in Surjagarh village, Gadchiroli along with sourcing from other iron ore rich areas of Odisha, MP, Bellary/Hospet region, while having long term linkages with Western Coalfields Limited for sourcing of coal. The company's end product sponge iron is the basic raw material used by steel manufacturers, selling it to Maharashtra based steel manufacturers. Mr. B. L. Agarwal, MD along with team of professionals manage the daily functioning of the company.

Company Financial Performance

As per audited financials for FY18, Total Operating Income increased to Rs. 423.27 Crs (v. Rs. 400.99 Crs) primarily on account of increase in trading of steel and realisation of higher prices of sponge iron. Profits increased in line with revenues, with EBITDA increasing to Rs. 16.45 Crs (v. Rs. 14.80 Crs) and Net Profit to Rs. 17.03 Crs (v. Rs. 5.57 Crs). The increase in net profit was largely due to increase in non-operating income of duty drawback. TNW increased to Rs. 84.43 Crs (v. Rs. 67.62 Crs), while Total Debt marginally increased to Rs. 316.77 Crs, resulting in a gearing ratio of 3.75x (v. 4.13x). Debt Coverage Ratios of ISCR & DSCR at 1.58x & 1.46x indicate sufficient coverage for debt repayments. Liquidity remains moderate with a cash conversion cycle at 8 days (v. 4 days). Current ratio stands at 1.55x (v. 1.49x).

As per provisional numbers for H1FY19, Net Sales increased to Rs. 235.64 Crs (v. Rs. 184.34 Crs) with EBITDA & PAT at Rs. 12.53 Crs (v. Rs. 6.15 Crs) & Rs. 10.96 Crs (v. Rs. 5.56 Crs) respectively.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2018	2017	2016
1.	Fund Based Cash Credit	Long Term	95.00	BWR BBB- (BWR Triple B Minus) Outlook: Stable	-	-	-
2.	Non Fund Based Bank Guarantee	Short Term	05.00	BWR A3 (BWR A Three)	-	-	-

	Total	100.00	₹ One Hundred Crores Only
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Status of non-cooperation with previous CRA (if applicable)-Reason and comments

NA

Key Financial Indicators

Key Parameters	Units	2017	2018
Result Type		(Audited)	(Audited)
Operating Revenue	₹ Cr	387.94	410.86
EBITDA	₹ Cr	14.80	16.45
PAT	₹ Cr	5.57	17.03
Tangible Net worth	₹ Cr	67.62	84.43
Total Debt/Tangible Net worth	Times	4.13	3.75
Current Ratio	Times	1.49	1.55

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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