



## Press Release

### LK Sri Enterprises LLP

June 05, 2024

#### Ratings:

| Instrument / Facility                  | Amount (Rs. crore)   | Current Ratings  | Previous Ratings  | Rating Action | Complexity Indicator (Simple/ Complex/ Highly complex) |
|--|--|--|---|---------------|--|
| Long Term / Short Term Bank Facilities | 185.00   | IVR BBB- / Stable; IVR A3 (IVR Triple B minus with Stable Outlook and IVR A Three) | IVR BBB / Stable; IVR A3+ (IVR Triple B with Stable Outlook and IVR A Three Plus) | Downgraded    | Simple   |
| <b>Total</b>                           | <b>185.00 (Rupees One hundred and eighty-five crores only)</b> |  |   |               |  |

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

Infomerics Ratings has downgraded its rating assigned to the bank facilities due to moderated financial performance in FY23 Audited and FY24 Unaudited, resulting in moderation in solvency ratios and profitability margins. Further the ratings continue to derive comfort from established track record and extensive experience of promoters in trading business, established relationship with reputed customers & suppliers, and moderate financial risk profile. The rating is however constrained by working capital intensive operation, susceptibility of profitability to prices of traded products, exposure to forex risks and cyclicity inherent in metal industry which is expected to keep company's cash flows volatile.

#### Key Rating Sensitivities:

##### Upward Factors

- Significant improvement in demand, leading to higher traded volumes and steel prices and in turn an improved financial risk profile while maintaining profitability margins.

##### Downward Factors

- Deterioration in the capital structure ratios and debt protection ratios.
- Deterioration in liquidity profile of the company.



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### List of Key Rating Drivers with Detailed Description:

#### Key Rating Strengths:

##### **Established track record and extensive experience of promoters in trading business**

M/s Sri Enterprises was established as a sole proprietorship concern in the year 1983. The proprietorship concern was converted into limited liability partnership firm on 1<sup>st</sup> April 2019 and later as on September 30, 2021 the name of the company changed to “LK Sri Enterprises LLP”. The firm is a part of LK Group established in 1895. The LK Group has a strong presence in world trade through imports & exports of steel & allied products. Currently the partners of the firm, Vanit Gupta, Ankit Gupta and Rohin Gupta have extensive experience in managing operations of steel and ferro alloys trading. The long-standing presence of the promoters in the industry has helped the firm to establish strong relationships with customers and suppliers, withstand industry cycles and diversify the product profile.

##### **Established relationship with reputed customers & suppliers**

The company is engaged in trading business of majorly ferro alloys & steel products which has limited competition due to collaboration with the manufacturing companies. The extensive experience of the promoters in the steel and alloy trading business has helped the firm in establishing relationship with reputed customers & suppliers. The firm during the year added new clientele and ventured into newer geographies to increase its market share resulting in increased share of revenue from exports and domestic sales. As on May 10, 2024, the company had orders amounting to Rs. 516 Cr. to be executed in upcoming 2 quarters.

##### **Moderate financial risk profile**

The firm's total operating income registered a growth of ~42% and ~68% respectively in FY23 Audited and FY24 Prov. and stood at Rs. 579.04 and Rs. 972.53 Cr. FY23 Audited and in FY24 Prov. mainly on account of new customers and new markets, continued push on infrastructure development and overall economic revival. The absolute EBITDA improved from Rs. 16.16 Cr. in FY23 to Rs. 26.68 Cr. in FY24 Prov. The EBITDA and PAT margins declined



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for past two fiscals on y-o-y basis and stood at 2.74% and 0.92% respectively in FY24 Prov. as against 2.79% and 1.82% respectively in FY23 mainly due to higher finance costs during the two fiscals. The capital structure marked by overall gearing ratio has elevated to 2.39x as on March 31, 2024 Prov. due to higher CC utilisation on the balance sheet date as against 0.13x as on March 31, 2023. The net worth of the firm has gradually improved and stood at Rs. 43.05 Cr. as on March 31, 2024 Prov. against Rs. 31.88 Cr. as on March 31, 2023 owing to accretion of profits to reserves. Due to lowered PAT for FY23 Audited and FY24 Prov., the ICR and DSCR declined for both fiscals however stood comfortable at 2.10x and 1.72x in March 31, 2024 Prov. respectively.

### **Key Rating Weaknesses**

#### **Working capital intensive operation**

The operations of the firm are working capital intensive. The average fund-based utilisation of the company remained at ~50% during the past 12 months ended March 2024 providing moderate liquidity buffer from its working capital limits. The firm's creditor period remained at 19 days due to the usage letter of credit coupled with improvement in collection and inventory period. Due to higher utilization on 31<sup>st</sup> March 2024, the TOL/TNW stood elevated at 4.72 times as on March 31, 2024 Prov. as against 3.33 times as on March 31, 2023.

#### **Susceptibility of profitability to prices of traded products**

The operating margins of the company are affected by fluctuation in prices of traded products. The company faces price volatility both in the international market (on procurements) and domestic market (on sales). Any adverse movement in the price of traded products can have a negative impact on the company's margins. However, company's longstanding relationship with its suppliers allow company to get cushion against the risk to some extent.

#### **Exposure to forex risks**

With more than 40% of its raw material is imported, the firm's exposure to foreign currency has remained high over the years, exposing it to the vagaries of currency markets. However, since the firm's imports are primarily backed by exports, it enjoys a natural hedge to some extent. Additionally, the firm hedges its foreign currency exposure through forward contracts. The risk mitigation by the firm has thereby resulted in the nil Un-hedged foreign currency exposure of the company as on March 31, 2024.



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### **Cyclicality inherent in metal industry which is expected to keep company's cash flows volatile**

Demand for steel products is sensitive to trends of industries, such as automotive, construction, infrastructure, and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry generally witness steep decline in demand, leading to decrease in demand of steel products. The cyclicality is expected to remain going forward which might hamper the cash flows of the company. However, the company's opportunistic shift between imports and domestic procurement/sales depending upon the market conditions provides some comfort.

**Analytical Approach:** Standalone

#### **Applicable Criteria:**

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

#### **Liquidity – Adequate**

The liquidity position of the firm is expected to remain adequate in the near term as the firm projects to generate cash accruals to the tune of ~Rs. 12 Cr. as against no long-term repayment obligations during FY25-27. However, the average utilisation of bank borrowings was moderate at ~50% during the past 12 months ended in March 2024. The firm has adequate cash and cash equivalents to the tune of Rs. 23.42 Cr.

#### **About the Company:**

M/s Sri Enterprises was established as a sole proprietorship concern in the year 1983. The proprietorship concern was converted into limited liability partnership firm on 1<sup>st</sup> April 2019. The business transfer agreement was entered on 28<sup>th</sup> September 2021 between M/s Sri Enterprises and LK Sri Enterprises LLP. All assets and liabilities standing in books of M/s Sri



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Enterprises as on 30.09.2021 have been transferred and assigned to M/s LK Sri Enterprises LLP under “Business Transfer Agreement” dated 28.09.2021 and standing in books of M/s LK Sri Enterprises LLP as on 01.10.2021.

The firm is engaged in end-to-end trading of steel and ferro alloy products like, Flat and Long Products like Wire Rods, Round Bars, H.R. Coils, Plates etc and all Alloy, Tool, Special Steels and HC & LC Ferro Alloys of various grades in domestic as well as overseas market.

### Financials (Standalone):

| For the year ended/ As on* | (Rs. crore) |            |
|----------------------------|-------------|------------|
|                            | 31-03-2022  | 31-03-2023 |
|                            | Audited     | Audited    |
| Total Operating Income     | 407.58      | 579.04     |
| EBITDA                     | 13.46       | 16.16      |
| PAT                        | 11.62       | 10.64      |
| Total Debt                 | 2.95        | 4.29       |
| Tangible Net Worth         | 21.70       | 31.88      |
| EBITDA Margin (%)          | 3.30        | 2.79       |
| PAT Margin (%)             | 2.82        | 1.82       |
| Overall Gearing Ratio (x)  | 0.14        | 0.13       |
| Interest Coverage (x)      | 6.86        | 3.34       |

\* As per Infomerics Standard

**Status of non-cooperation with previous CRA:** None

**Any other information:** None

**Rating History for last three years:**

| Sr. No. | Name of Instrument/ Facilities | Current Ratings (Year 2024-25)         |                                |                  | Rating History for the past 3 years     |   |   |
|---------|--------------------------------|--|--------------------------------|------------------|---|---|---|
|         |                                | Type                                   | Amount outstanding (Rs. Crore) | Rating           | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 |
|         |                                |  |                                |                  | Date (08-Mar-2023)                      | Date (15-Dec-2021)                      | Date (Month XX, 20XX)                   |
| 1.      | Letter of Credit               | Long Term / Short Term Bank Facilities | 185.00                         | IVR BBB-/ IVR A3 | IVR BBB / IVR A3+                       | IVR BBB- /IVR A3                        | --                                      |

**Name and Contact Details of the Rating Analyst:**



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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit [www.infomerics.com](http://www.infomerics.com).

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### Annexure 1: Details of Facilities:



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| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook     |
|------------------|------------------|------------------|---------------|------------------------------|------------------------------|
| Letter of Credit | --               | --               | --            | 100.00                       | IVR BBB- / Stable;<br>IVR A3 |
| Letter of Credit | --               | --               | --            | 60.00                        | IVR BBB- / Stable;<br>IVR A3 |
| Letter of Credit | --               | --               | --            | 25.00                        | IVR BBB- / Stable;<br>IVR A3 |

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-LKSri-jun24.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com)