

Press Release

GOYAL ISPAT LIMITED

June 19, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 17.50 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) from **ACUITE A4** on the Rs. 17.50 crore bank facilities of GOYAL ISPAT LIMITED. The outlook is '**Stable**'.

The Chennai-based GIL is a part of the Kamachi group of companies established by Mr. Ghisulal Kothari and Mr. Shantilal Kothari in 1978. GIL was incorporated in 1990 and is engaged in the manufacture of TMT bars.

Analytical Approach

ACUITE has considered the standalone business and financial risk profiles of the GIL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

GIL commenced operations from 1990. The company is promoted by its director, Mr. Ghisulal Kothari, Mr. Shantilal Kothari, Mr. Sardarmal Kothari and Mr. Vinod Kothari who possess experience of more than two decades in steel industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. Acuité believes that GIL will continue to benefit from its experienced management and established relationships with customers.

- **Healthy scale of operations and improving profitability**

The company has reported healthy revenue growth with compounded annual growth rate (CAGR) of around 32.00 percent through the last four years ended 31 March, 2019 (Provisional). The company reported moderate revenue growth of ~13 percent with operating income of Rs.148.45 crore in FY2019 (Provisional) as against operating income of Rs.131.73 crore in FY2018. The operating margins of the company increased marginally to 2.70 percent in FY2019 (Provisional) from 1.49 percent in FY2018.

- **Moderate working capital operations**

GIL has moderate working capital operations marked by Gross Current Assets (GCA) of 115 days in FY2019 (Provisional) as against 128 days in FY2018. The company maintains inventory of around 30 to 45 days on an average and extends clean credit of around 30 to 120 days to its customers, resulting in moderate GCA days. The inventory and debtors levels stood at 55 and 49 days in FY2019 (Provisional) as against 60 and 49 days in FY2018, respectively. As a result, the bank limit is fully utilized for the past six months ending May, 2019. Acuité believes that the working capital requirements will continue to remain moderate over the medium term on account of nature of the business.

Weaknesses

• Weak financial risk profile

The financial risk profile is weak marked by modest net worth and low debt protection measures and high gearing. The net worth of the company is modest at Rs.4.76 crore as on 31 March 2019 (Provisional) as against Rs.4.40 crore as on 31 March 2018. The gearing of the company has stood high at 8.18 times as on March 31 2019 (Provisional) as against 7.99 times as on 31 March 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 15.34 times as on 31 March 2019 (Provisional) as against 16.22 times as on 31 March 2018. The Interest Coverage Ratio (ICR) improved to 7.38 times in FY2018 (Provisional) from 5.67 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.87 times as on 31 March 2018 (Provisional) as against 0.35 times as on 31 March 2017. Debt Service Coverage Ratio (DSCR) stood at 2.28 times for FY2018 (Provisional) as against 2.72 times in FY2017. Acuite believes that the financial risk profile of RPIL will continue to remain comfortable over the medium term on account of its improving scale of operations and net cash accruals.

• Susceptibility of profitability volatility in material prices

The raw material prices are highly volatile in nature adversely impacting the profitability margins of the company. Further the company is exposed to fluctuation in crude oil prices in the absence of adequate hedging mechanism as it is derivative of PVC resin.

Liquidity Position

GIL has average liquidity marked by modest net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.55 crore in FY2019 (Provisional) as against Rs.0.12 crore in FY2018, while its maturing debt obligations were nil over the same period. The company's working capital operations are moderate marked by gross current asset (GCA) days of 115 in FY 2019 (Provisional). This has led to higher reliance on working capital borrowings, the cash credit limit in the company is fully utilized during the last 6 months period ended May, 2019. The company maintains unencumbered cash and bank balances of Rs.0.20 crore as on March 31, 2019 (Provisional). The current ratio of the company stands at 1.01 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the company is likely to improve over the medium term on account of its improving cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that GIL will continue to benefit over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in GIL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	148.45	131.73	60.84
EBITDA	Rs. Cr.	4.01	1.97	-1.12
PAT	Rs. Cr.	0.37	-1.07	-3.35
EBITDA Margin	(%)	2.70	1.49	-1.85
PAT Margin	(%)	0.25	-0.81	-5.50
ROCE	(%)	7.05	2.07	-4.77
Total Debt/Tangible Net Worth	Times	1.01	0.85	1.21
PBDIT/Interest	Times	1.63	0.83	-0.37
Total Debt/PBDIT	Times	5.49	8.88	-27.57
Gross Current Assets (Days)	Days	115	128	213

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Mar-2018	Cash Credit	Long Term	12.50	ACUITE B- / Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A4 (Reaffirmed)
30-Jan-2018	Cash Credit	Long Term	12.50	ACUITE B- (Indicative)
	Letter of Credit	Short Term	5.00	ACUITE A4 (Indicative)
12-Oct-2016	Cash Credit	Long Term	12.50	ACUITE B- / Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE B- / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Saurabh Rane Analyst - Rating Operations Tel: 02249294044 Saurabh.Rane@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: *An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.*