

Press Release

Shree Gautam Labdhi Trade Links

May 16, 2019

Rating Reaffirmed



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 8.00 Cr. |
| Long Term Rating | ACUITE BB- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 8.00 crore bank facilities of Shree Gautam Labdhi Trade Links (SGTL). The outlook is '**Stable**'.

SGTL, established in 2012, is a Mumbai-based partnership firm that is engaged in the trading of thermo-mechanically treated (TMT) bars.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SGTL to arrive at the rating.

Key Rating Drivers

Strengths

- Promoters' extensive experience in the industry**

The promoters of SGTL, Mr. Tejas Gosalia and Mr. Bhavin Gosalia have an extensive experience of around two decades in the steel industry. Prior to this firm, the promoters had a joint family business engaged in similar line of business.

- Average financial risk profile**

The firm has moderate financial risk profile, marked by net worth of Rs.4.59 crore as on 31 March, 2018 as compared to Rs.4.56 crore as on 31 March, 2017. The debt to equity ratio stood at 1.88 times as on 31 March, 2018 as compared to 1.59 times as on 31 March, 2017. SGTL has interest coverage ratio (ICR) of 1.56 times for FY2018 as compared to 1.40 times for FY2017. Total debt outstanding as on March 31, 2018 of Rs.8.61 crore consists of long term borrowings of Rs.0.57 crore, unsecured loans from promoters and relatives of Rs.7.47 crore and short term working capital borrowings of Rs.0.57 crore. Further, TOL/TNW stood at 2.03 times as on March 31, 2018. Acuite believes that the firm will continue to maintain average financial risk profile over the medium term on account of stable revenues and profitability, and absence of any debt funded capex.

Weaknesses

- Moderately working capital intensive operations**

The firm has working capital intensive operations marked by GCA days of 117 for FY2018, an increase from 99 in FY2017. This is mainly on account of increase in collection period which stood at 113 days in FY2018 against 92 days in FY2017. Being in trading business, the firm does not maintain inventory and transactions are purely order based. Average utilisation of working capital limits remained low (i.e 20-25 per cent).

- Highly competitive and fragmented industry**

The steel trading industry is highly competitive and fragmented segment. The competition stems from large number of organised and unorganised players leading to stiff competition and entry barriers.

Liquidity Position:

Liquidity profile is moderate marked by net cash accruals of Rs.0.54 crore during FY18 against its repayment obligations of Rs. 0.14 crore. The firm's operations were moderately working capital intensive as marked by gross current asset (GCA) days of 117 in FY 2018, while the working capital utilisation of the firm remained low. The current ratio of the firm stood at 10.28 times as on March 31, 2018. Acuite believes that SGTIL will continue to benefit over the medium term on account of experienced management.

Outlook: Stable

Acuite believes that the outlook for SGTIL will remain 'Stable' over the medium term on account of its experienced promoters and average financial risk profile. The outlook may be revised to 'Positive' if the firm's scale of operations increases substantially, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve the scalability amidst intensifying competition in the area of operation or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 40.42 | 43.82 | 51.87 |
| EBITDA | Rs. Cr. | 0.51 | 0.54 | 1.48 |
| PAT | Rs. Cr. | 0.45 | 0.38 | 0.55 |
| EBITDA Margin | (%) | 1.27 | 1.22 | 2.85 |
| PAT Margin | (%) | 1.11 | 0.87 | 1.06 |
| ROCE | (%) | 11.30 | 11.55 | 12.14 |
| Total Debt/Tangible Net Worth | Times | 1.88 | 1.59 | 1.41 |
| PBDIT/Interest | Times | 1.56 | 1.40 | 1.59 |
| Total Debt/PBDIT | Times | 5.74 | 5.34 | 4.59 |
| Gross Current Assets (Days) | Days | 117 | 99 | 90 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.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 |
|-------------|---------------------------------|-----------|------------------|----------------------------------|
| 09-Mar-2018 | Cash Credit | Long Term | 8.00 | ACUITE BB- / Stable (Reaffirmed) |
| 06-Feb-2018 | Cash Credit | Long Term | 8.00 | ACUITE BB- (Indicative) |
| 14-Nov-2016 | Cash Credit | Long Term | 8.00 | ACUITE BB- / Stable (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 | 8.00 | ACUITE BB- / Stable (Reaffirmed) |

Contacts

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|--|---|
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About Acuité Ratings & Research:

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