

Press Release

Goal Closures

January 20, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.27.85 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.27.85 crore bank facilities of Goal Closures. The outlook is revised to '**Negative**'.

Reason for revision in Outlook

The revision in outlook follows the expected deterioration in the liquidity position of the firm due to subdued operating performance during FY2021, and stretch in working capital cycle during the H1FY2021 on account elongated debtors' collection period and inventory holding period. Firm registered revenue of Rs.21.80 crore with the net profit of Rs.0.84 crore; inventory level and debtor stood at Rs.20.45 crore and Rs.27.34 crore respectively as on 30 September 2020.

About the company

Coimbatore-based, Goal Closures was established as a partnership firm in 2007 by Mrs. R. Vichitra and Mr. V. Ponnuswamy. The firm is engaged in the manufacturing of aluminium caps used in the liquor and pharmaceutical industries. The firm has an installed capacity of 150 crore caps per year with manufacturing facilities located at Coimbatore, Tamil Nadu.

Analytical Approach

For arriving at this rating, Acuite has taken a standalone view of the business and financial risk profile of Goal Closures.

Key Rating Drivers

Strengths

• Experienced Management

The firm is promoted by Mr. V. Ponnuswamy and Mrs. R. Vichitra who possess over two decades of experience in the non-ferrous metal industry. The extensive experience of promoters has helped the firm to forge long-term relations with customers and suppliers. GC's clientele include reputed companies like Reckitt Benckiser, United Spirits, to name a few.

Acuite believes GC will continue to benefit from experienced partners that will help to maintain long-term relations with customers and suppliers.

• Moderate financial risk profile

The financial risk profile of the firm is moderate marked by average net worth, healthy debt protection metrics, and low gearing. The net worth of the firm has remained stable as there has been drawings by the partners. Net worth stood at Rs. 27.15 crore as on 31 March, 2020 (Provisional) as against Rs.27.03 crore as on 31 March, 2019.

The gearing level (debt-equity) stood stable at 0.83 times as on 31 March, 2020 (Provisional) as against 0.81 times as on 31 March, 2019. The total debt of Rs.22.41 crore outstanding as on 31 March, 2020 (Provisional) comprises Rs.3.28 crore as a term loan and Rs.19.13 crore as a working capital limit from the bank. Owing to moderate profitability level, the debt protection has remained healthy, interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.74 times and 2.30 times respectively in FY2020 (Provisional). NCA/TD (Net Cash Accruals to Total

Debt) ratio stood at 0.32 times in FY2020 (Provisional) and 0.30 times in FY2019. Debt/EBITDA stood at 1.61 times in FY2020 (Provisional).

Acuite believes that the financial risk profile of the firm is expected to remain moderate backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

• Uptrend in Operating Income

Operating income of the firm stood at Rs.140.10 crore in FY2020 (Provisional), Rs.136.09 crore in FY2019 and Rs.132.77 crore in FY2018. However, operating performance was deteriorated during H1FY2020 on account of lockdown, operating income stood at Rs.21.80 crore in H1FY2021. Operating margin has remained healthy in the range of 9-10 percent during the last three years under study.

Weaknesses

• Working Capital intensive nature of Operations

Operations of the firm are working capital intensive marked by Gross Current Asset (GCA) of 124 days in FY2020 (Provisional) as compared to 122 days in FY2019. This is on account of debtors' collection period of 80 days in FY2020 (Provisional) as against 77 days in FY2019 and inventory holding period of 47 days in FY2020 (provisional) as against 43 days in FY2019. However, current ratio of the firm stood moderate at 1.39 times as on 31 March, 2020 (Provisional).

Acuite believes that the working capital operations of GC will continue to remain intensive on account of high debtors' collection period.

• Customer concentration

The firm faces high customer concentration risk. Single customer contributed around ~45 percent of the revenue for the last three years. The high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customer.

Liquidity Profile: Adequate

GC has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. Firm generated cash accruals of Rs.7.19 crore in FY2020 (Provisional) against debt obligation of Rs.1.03 crore for the same period. The cash accruals of the firm are estimated to remain in the range of Rs.4.00 crore – Rs.9.00 crore during 2021-23, while its repayment obligations are estimated to remain in the range of Rs.1.50-Rs.3.10 crore for the same period. Firm's operations are working capital intensive as marked by gross current asset (GCA) days of 124 days in FY2020 (Provisional). The firm maintains unencumbered cash and bank balances of Rs.0.01 crore as on March 31, 2020 (Provisional). The current ratio of the firm stands moderate at 1.39 times as on March 31, 2020 (Provisional).

Going forward, Acuite expects the liquidity position of the firm to be susceptible to the operating performance of the firm and timely realization of debtors.

Rating Sensitivities

- Lower than expected operating performance
- Significant decline in profitability margins
- Any deterioration in working capital cycle and liquidity of the firm

Outlook: Negative

Acuite has revised the outlook to 'Negative' on account of expected deterioration in its liquidity position. The outlook may be revised to 'Stable' in case the firm registers significant growth in its revenue while maintaining the profitability levels and efficiently managing its working capital cycle. Conversely, the outlook will be revised to 'Negative' in case of significant decline in revenue, profit margins and deterioration in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	140.10	136.09
PAT	Rs. Cr.	5.66	5.33
PAT Margin	(%)	4.04	3.92
Total Debt/Tangible Net Worth	Times	0.83	0.81
PBDIT/Interest	Times	3.74	2.88

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Any Material Covenants

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Oct-2019	Cash Credit	Long Term	20.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	4.74	ACUITE BBB-/ Stable (Reaffirmed)
	Letter of Credit	Short Term	2.90	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.21	ACUITE A3 (Reaffirmed)
	One time letter of Credit	Short Term	5.65	ACUITE A3 (Withdrawn)
03-Dec-2018	Cash Credit	Long Term	20.00	ACUITE BBB- (Indicative)
	Term Loan	Long Term	2.67	ACUITE BBB- (Indicative)
	Bank Guarantee	Short Term	1.59	ACUITE A3 (Indicative)
	Letter of Credit	Short Term	6.34	ACUITE A3 (Indicative)
	One time letter of Credit	Short Term	2.90	ACUITE A3 (Indicative)
23-Oct-2017	Cash Credit	Long Term	20.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	2.67	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	1.59	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	6.34	ACUITE A3 (Assigned)
	One time letter of	Short Term	2.90	ACUITE A3

	Credit			(Reaffirmed)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Negative (Reaffirmed)
Term Loans	Not Available	8.85%	Not Available	4.74	ACUITE BBB-/Negative (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.90	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.21	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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