

Press Release

Govind Steel Company Limited

August 04, 2017



Rating Assigned

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 20.00 Cr. |
| Long Term Rating | SMERA BB+ / Outlook: Stable |
| Short Term Rating | SMERA A4+ |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+** (read as SMERA BB plus) and short term rating of '**SMERA A4+** (read as SMERA A four plus) on the Rs. 20.00 crore bank facilities of Govind Steel Company Limited. The outlook is '**Stable**'.

Incorporated in 1958, Govind Steel Company Limited (GSCL) is involved in manufacturing of manhole covers, manhole sets, C. I. castings, D. I. castings etc. Promoted by Mr. Dinesh Kumar Seksaria, its management includes Mr. Gaurav Seksaria and Mr. Chhatar Singh Kathotia. Its plant has an installed capacity of 12,000 tons per annum of foundry (C. I. Castings) and 2,400 tons per annum of ductile furnances (D. I. Castings) in Rishra in the Hooghly district in West Bengal.

Incorporated in 1962, DBPL in involved in trading and exports of manhole covers, manhole sets, C. I. castings, D. I. castings etc. It purchases these products from its group concern, Govind Steel Company Limited (GSCL), and exported outside India to countries like US, Middle East, Germany and Canada.

Key Rating Drivers

Strengths

• Healthy financial risk profile

It's healthy financial risk profile is marked by healthy debt protection metrics, comfortable net worth and moderate gearing. The interest coverage and debt service coverage ratios have been at 3.02 times and 1.80 times respectively in FY2016. The net worth base is comfortable at Rs.21.93 crore as on 31st March 2016. The gearing is comfortable marked by debt equity of 1.31 times and 1.02 times in FY2016 and FY2015 respectively. The debt mainly comprises of working capital loans from bank of around Rs.20.19 crore in FY2016 apart from loans from body corporate and preference capital.

• Experienced management

The group which consists of the abovementioned companies is led by Mr. Dinesh Kumar Sakseria, Mr. Gaurav Sakseria and others has an experience of around five decades in the iron and steel castings industry.

• Healthy margins and accruals

The group's healthy margins are marked by EBITDA of 9.54 percent and 9.34 percent in FY2016 and FY2015 respectively. Also, the PAT stood at 2.57 percent and 1.84 percent in FY2016 and FY2015 which translates into healthy accruals marked by NCA/TD of 0.17 times and 0.21 times respectively.

• Steady revenue growth

The group's revenue has grown at a CAGR of 9.89 percent in the past three years. Its revenue stood at

Rs.72.36 crore in FY2016 as compared to Rs.59.92 crore in FY2015. This growth is due to their time delivery of export orders which in turn is enabling repeat orders from their existing client

Weaknesses

- **Working capital intensive operations**

The working capital intensive operations are marked by gross current asset of 183 days in FY2016 as compared to 176 days in FY2015. This is mainly due to the other current assets comprising of statutory refunds of around Rs.2.03 crore from under various foreign trade schemes of the government. The debtors stood at 62 days in FY2016 (as compared to 81 days in FY2015) and inventory at 75 days (as compared to 64 days in FY2015).

- **Susceptibility of profit margins to raw material**

Majority of raw material, i.e., MS scrap and pig iron is sourced locally. During the past three years, raw material cost remained the major cost driver for GSCL & DBPL in the range of 56% - 79% of the total cost of sales. Accordingly, any adverse movement in prices of raw materials will have an adverse impact on the performance of the company.

- **Unhedged Exports**

The majority of its sales come from exports to countries like US, Middle East, Germany and Canada. However, these are unhedged therefore exposing it to foreign exchange fluctuation risk.

Analytical Approach

SMERA has consolidated the business and financial risk profiles of Dinesh Brothers Private Limited and Govind Steel Company Limited, together referred to as the Dinesh Group. The consolidation is in view of the common management and operational linkages within the group.

Outlook: Stable

SMERA believes that Dinesh Group (DG) will maintain a stable business profile in the medium term while benefitting from its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' if DG sustains scaling up operations while maintaining profitability and improving working capital management. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues or if the working capital cycle further deteriorates.

About the Group

Established in 1962, Dinesh Group is involved in exports of iron products like C. I. Castings and D. I. Castings which includes mainly manhole covers, manhole sets, counter weight pulleys etc. The group promoted by Mr. Dinesh Kumar Seksaria includes Govind Steel Company Limited (GSCL), incorporated in 1958, which is involved in manufacturing of abovementioned products and Dinesh Brothers Private Limited (DBPL), incorporated in 1962, is involved in trading of these products which is purchased mainly from GSCL and the same is exported outside India to countries like US, Middle East, Germany and Canada. Majority of their sales is comprised of export sales.

About the Rated Entity - Key Financials

For FY2016, GSCL reported profit after tax (PAT) of Rs.0.29 crore on total operating income of Rs.63.68 crore, as compared with PAT of Rs.0.60 crore on total operating income of Rs.65.19 crore in FY2015. The tangible net worth stands at Rs.9.28 crore in FY2016 as compared to Rs.9.03 crore in FY2015.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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 | 10.00 | SMERA BB+ / Stable |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.00 | SMERA BB+ / Stable |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | SMERA A4+ |
| Proposed Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | SMERA A4+ |

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ABOUT SMERA

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