

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 is 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+

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Abhishek Dey Executive Analyst - Rating Operations Tel: 033-66201208 abhishek.dey@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA 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. SMERA 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, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA 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. SMERA 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.smera.in) for the latest information on any instrument rated by SMERA.
