

Press Release

Govind Steel Company Limited

August 03, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE BBB minus**) and short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 20.00 crore bank facilities of GOVIND STEEL COMPANY LIMITED. The outlook is '**Stable**'.

The rating has been upgraded based on significant revenue growth of Rs.116.02 crore in FY2018 (Estimated) from Rs.86.61 crore in FY2017. The revenue growth is supported by growing demand for D.I. castings. Additionally, the net profitability of the group has also increased thereby leading to improved accruals.

Incorporated in 1962, Dinesh Brothers Private Limited (DBPL) is involved in trading and exports of manhole covers, manhole sets, C.I castings, D.I castings among others. DBPL purchases a portion of the products from GSCL and sells it in the domestic and export market.

Incorporated in 1958, Govind Steel Company Limited (GSCL) is involved in manufacturing of manhole covers, manhole sets, C. I. castings, D. I. castings among others. Promoted by Mr. Dinesh Kumar Seksaria, their management includes Mr. Gaurav Seksaria and Mr. Chatar Singh Kathotia. The plant has an installed capacity of 12,000 tons per annum of foundry (C.I. Castings) and 24,000 tons per annum of ductile furnaces (D.I. Castings) in Rishra (West Bengal).

Analytical Approach

Acuité has consolidated the business and financial risk profile of Dinesh Brothers Private Limited and Govind Steel Company Limited, together referred to as the Dinesh Group to arrive at the rating. The consolidation is in the view of the common management, same line of business and operational linkages within the group.

Key Rating Drivers

Strengths

• Experienced management

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

• Steady revenue growth

The group's revenue has grown at a CAGR of 26 percent approximately in the past three years. Its revenue stood at Rs.116.02 crore in FY2018 (Estimated) as compared to Rs.86.61 crore in FY2017 thereby registering a 34 per cent year on year growth. The growth is due to increase in the demand for D.I Castings.

• Healthy margins and accruals

The group's margins are marked by operating margin of 9.96 percent in FY2018 (Estimated) and 9.90 percent in FY2017. The PAT margin of the group stood at 5.04 percent in FY2018 (Estimated) as compared to 4.24 percent in FY2017 which translates to healthy accruals marked by Non-Current Assets/Total Debt (NCA/TD) of 0.28 times in FY2018 (Estimated) as against 0.26 times in FY2017.

Weaknesses

• Susceptibility of profit margins to prices of 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 and DBPL. Accordingly, any adverse movement in prices of raw materials will have an adverse impact on the performance of the company.

• Working capital intensive operations

Dinesh Groups' operations are working capital intensive and are marked by high Gross Current Assets (GCA) of 161 days in FY2018 (Estimated) as against 159 days in FY2017 on account of high debtor days of 86 days in FY2018 (Estimated) as against 78 days in FY2017. The working capital intensity is because of the nature of the iron and steel industry involving stretched receivables and voluminous raw materials involved.

Outlook: Stable

Acuite believes that the outlook on Dinesh Group will remain 'Stable' over the medium term backed by the experience of its management and steady growth in their turnover. The outlook maybe revised to 'Positive' in case of sustained revenue growth while maintaining profitability. Conversely, the outlook maybe revised to 'Negative' in case of a further stretch in the working capital cycle or if the group registers lowers than expected revenues.

About the Group

Established in 1962, Dinesh Group is involved in exports of iron products like C.I. castings, D.I. castings which include manhole covers, manhole sets, counterweight pulleys. The group promoted by Mr. Dinesh Kumar Seksaria includes GSCL, incorporated in 1958, which is involved in manufacturing of abovementioned products and 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 sales comprises of export sales.

About the Rated Entity - Key Financials

	Unit	FY18 (Estimated)*	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	116.02	86.61	72.38
EBITDA	Rs. Cr.	11.55	8.58	6.92
PAT	Rs. Cr.	5.85	3.67	1.86
EBITDA Margin	(%)	9.96	9.90	9.57
PAT Margin	(%)	5.04	4.24	2.56
ROCE	(%)	21.34	16.99	14.22
Total Debt/Tangible Net Worth	Times	0.99	0.99	1.31
PBDIT/Interest	Times	6.93	3.94	3.02
Total Debt/PBDIT	Times	2.27	2.13	3.20
Gross Current Assets (Days)	Days	161	159	183

*The following is based on the approximation of key figures data provided by the company

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

CRISIL, vide its press release dated November 28, 2017 had denoted the rating of Govind Steel Company Limited as 'CRISIL BB-/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Available

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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
04-Aug-2017	Cash Credit	Long Term	10.00	ACUITE BB+ / Stable (Assigned)
	Proposed Cash Credit	Long Term	4.00	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Assigned)
	Proposed Letter of Credit	Short Term	3.00	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	12.00	ACUITE BBB- / Stable (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Upgraded)

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About Acuité Ratings & Research:

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