

Press Release

Govind Steel Company Limited

November 14, 2019



Rating Reaffirmed, Outlook Revised

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed 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. 20.00 crore bank facilities of GOVIND STEEL COMPANY LIMITED. The outlook is revised to '**Negative**' from '**Stable**'.

The revision of outlook is on account of contraction in margins in FY2019 along with high working capital intensity. The EBITDA margin of the group declined to 8.56 percent in FY2019 as against 11.27 percent in FY2018. The decline in margins has led to deterioration in financial risk profile of the group. Debt to EBITDA deteriorated to 3.78 times in FY2019 as compared to 2.21 times in FY2018. The working capital cycle of the group is also stretched marked by GCA days of 192 for FY2019 as compared to 209 in FY2018. This is mainly on account of pile up in inventory which has led to high reliance on bank limit reflected in average utilization of about 90% for the last 3 months ended October 2019. Any further decline in operating margin or elongation of the working capital cycle of the group will impart a negative biased towards the rating.

Incorporated in 1958, Govind Steel Company Limited (GSCL) is engaged 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 considered the consolidated business and financial risk profiles of Dinesh Brothers Private Limited (DBPL) and Govind Steel Company Limited (GSCL), hereby referred to as the group. The consolidation is in view of the common management and operational linkages within the group.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

The group is led by Mr. Dinesh Kumar Sakseria, and Mr. Chatar Singh Kathotia who hold experience of more than two decades in the iron and steel casting industry. They are ably supported by second generation, Mr. Gaurav Sakseria who holds experience of more than two decades in industry. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers of the company have no major concentration in revenues. On the back of the stable and repeat orders by the various customers, the revenues of the group have seen a compound annual growth rate (CAGR) of about 20 per cent over the past four years through FY2019 at Rs. 133.84 crore in FY2019. Further, the group has an unexecuted order book position or order book of about Rs. 50 crore which shows adequate revenue visibility.

- **Moderate financial risk profile**

The group's financial risk profile is moderate, marked by a moderate networth, healthy gearing and above average debt protection metrics. The group's networth is moderate at around Rs. 30.86 crore as on March 31, 2019 as against Rs. 26.00 crore as on 31 March 2018. The group has followed a conservative financial policy in the past, the same is reflected through regular infusion of unsecured loans to support working capital requirements and its peak gearing levels of 1.43 as on 31 March 2019

and total outside liabilities to tangible networth (TOL/TNW) of 2.03 times as on March 31, 2019. The group incurred capex of Rs.12.41 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period has been around Rs. 19.06 crore to support the increase in scale of operations. The group's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs. 8.7 to 15.4 crores which are comfortable to service its repayment obligations while supporting majority of the routine capex and incremental working capital requirements. As a result, the gearing however is expected to moderate to around 1.4 times as on March 31, 2021 on back of healthy accretion to reserves. The revenues of the group increased by CAGR of around 20 per cent to Rs.133.8 crore during 2018-19, while its operating margins were remained stable in the range of 8.6-11.2 per cent. The healthy profitability levels coupled with moderate debt levels has led to above average debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were healthy at 0.15 times and 5.01 times, respectively. Acuité believes that the ability of the group to sustain its financial risk profile in the medium term will be a factor of key rating sensitivity.

Weaknesses

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

Majority of raw material, i.e., MS scrap and pig iron are sourced locally. During the past three years, raw material cost remained the major cost driver for the group. The group has witnessed a drop in profitability margins the past. The operating margins have declined to 8.56 per cent for FY2019 from 11.27 per cent in the past. Accordingly, any adverse movement in prices of raw materials impacting the margins and thereby deterioration in financial risk profile will impart a negative biased towards the rating.

- **Working capital intensive operations**

The group has stretched working capital cycle marked by GCA days of 192 days in FY2019 as against 209 days in FY2018. The receivables period stood stable at 70 days in FY2019 as against 74 days in FY2018. Inventory days stood high at 107 days in FY2019 and in FY2018. Majority of the inventory consists of Work in Progress (WIP). Payables period reduced to 30 days in FY2019 as compared to 65 days in FY2018. The working capital limit in the group is utilized at 90% on an average for the last six months ended October 2019.

Rating Sensitivities

- Elongation of working capital cycle
- Decline in operating margins

Mandatory Covenants

None

Liquidity position: Adequate

The group has adequate liquidity marked by healthy net cash accruals to maturing debt obligations. The group generated cash accruals of Rs. 5.5 to 6.7 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.2 to 0.5 crore for the same period. The cash accruals of the group are estimated to remain around Rs. 8.6 to 15.4 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 0.9 to 1.5 crore during the same time. The group's operations are working capital intensive marked by Gross Current Asset (GCA) of 192 days for FY2019 from 209 days in the previous year. This has led to high reliance on working capital borrowings, the cash credit limit in the group remains utilized at 90 percent during the last six months period ended October 2019. The group maintains unencumbered cash and bank balances of Rs. 0.14 crore as on March 31, 2019. The current ratio of the group stands healthy at 1.28 times as on March 31, 2019.

Outlook: Negative

Acuité believes that the group's financial risk profile is likely to be under pressure on account of continued deterioration in its working capital cycle particularly its receivable position and increased leverage levels from the recent capex undertaken. The rating may be 'downgraded' if there is higher-than-expected decline in its profitability or further elongation in working capital. The outlook may be revised to 'Stable' in case the company is able to demonstrate significant improvement in margins thereby improving financial risk profile and improvement in working capital.

About the Group

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.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	133.84	101.54	86.61
EBITDA	Rs. Cr.	11.46	11.44	8.58
PAT	Rs. Cr.	5.14	5.06	3.67
EBITDA Margin	(%)	8.56	11.27	9.90
PAT Margin	(%)	3.84	4.98	4.24
ROCE	(%)	16.11	21.27	38.23
Total Debt/Tangible Net Worth	Times	1.43	0.99	0.99
PBDIT/Interest	Times	5.01	4.88	3.94
Total Debt/PBDIT	Times	3.78	2.21	2.13
Gross Current Assets (Days)	Days	192	209	159

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

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
14-Oct-2019	Letter of Credit	Short Term	3.00	ACUITE A3 (Indicative)
	Cash Credit	Long Term	12.00	ACUITE BBB- (Indicative)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Indicative)
03-Aug-2018	Cash Credit	Long Term	12.00	ACUITE BBB- / Stable (Upgraded)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Upgraded)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Upgraded)
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)
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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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB- / Negative (Rating reaffirmed, outlook revised)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Rating reaffirmed, outlook revised)
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Rating reaffirmed, outlook revised)

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About Acuité Ratings & Research:

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