

Press Release

Govind Steel Company Limited

May 03, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	8.00	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	20.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.20.00 Cr bank facilities of Govind Steel Company Limited (GSCL). The outlook is '**Stable**'.

The rating upgrade is on account of significant improvement in the business risk position of the group marked by successful operationalization of second manufacturing unit for D.I. castings, established track record of operations and revenue growth of around 59 per cent in FY22 (Prov.). Even though the freight cost for the group has increased, the EBITDA margins have remained at healthy levels at 8.97 per cent in FY21 and is expected to improve further in FY22. PAT margin of the group has also steadily improved over the years. The rating further draws comfort from the moderate financial risk profile of the group. However, the rating is constrained by the increasing working capital intensity of the group, intense competition and susceptibility of profitability to input prices.

About Company

Incorporated in 1958, Govind Steel Company Limited (GSCL) is a Kolkata based company 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. Chatar Singh Kathotia. The plant has an installed capacity of 18,000 tons per annum of foundry (C.I Castings) and 6,000 tons per annum of ductile furnaces (D.I Castings) in Rishra, West Bengal. GSCL sells around 60 per cent of its products to the local market and the remaining is exported.

About the Group Company

Incorporated in 1962, Dinesh Brothers Private Limited (DBPL), is a Kolkata based company involved in manufacturing, trading and exports of manhole covers, manhole sets, C.I

castings, D.I castings etc. Over 90 percent of its sales are exports. In Jan, 2021, the company has commenced its manufacturing unit of D.I. castings with an installed capacity of 12,000 MTPA. In FY22, the company generated around 35 per cent of its revenue from manufacturing and remaining from trading sales. Mr. Gaurav Seksaria and Mr. Dinesh Kumar Seksaria are the directors of the company.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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 Govind group, on account of common management, same line of business and strong operational linkages between the entities.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

The group is led by the second and third generation directors, Mr. Dinesh Kumar Seksaria, Mr. Chatar Singh Kathotia and Mr. Gaurav Seksaria, who hold experience of more than two decades in the iron and steel casting 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 group has set up its second unit for manufacturing with a modern foundry in Jan'21. Acuité believes that going forward the vast experience of the management and long tracks record of operations will continue to support the business.

Moderate financial risk profile

The company's moderate financial risk profile is marked by modest networth base, moderate gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.44.23 Cr as on 31st March, 2021 from Rs.38.63 Cr as on 31st March, 2020 due to accretion of reserves. Acuité has considered unsecured loans of Rs.2.87 Cr as on March 31, 2021 as quasi-equity as the management has undertaken to maintain the amount in the business during the tenure of the term loans. Gearing of the group increased at 1.52 times as on March 31, 2021 as against 1.26 times as on March 31, 2020 as the group underwent capex and availed Covid loans. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.93 times as on March 31, 2021 as against 1.76 times as on March 31, 2020. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 3.41 times and Debt Service Coverage Ratio (DSCR) at 2.02 times as on March 31, 2021. NCA/TD stood at 0.10 times in FY2021. Going forward, Acuité believes that the financial risk profile of the group will improve backed by steady accruals and no major debt funded capex plans.

Significant revenue growth in FY22

The group has achieved significant improvement in revenues to the tune of around 60 per cent in FY22 and around 10 per cent in the previous period. The group has booked revenues of Rs.194.74 Cr (after intercompany adjustments) till Mar'22 (prov.) as against Rs.122.67 Cr in FY21. The growth in the top line in FY22 is on account of new manufacturing unit being operational in DBPL, high demand of products and thrust in the steel sector. GSCL's exports account to around 60 per cent of its turnover whereas 90 per cent of revenue in DBPL is generated through exports. Acuité believes the group's scale of operations will further improve as the group has set up its second unit for manufacturing of D.I. castings.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations marked by high Gross Current Asset (GCA) of 258 days in FY2021 as compared to 231 days in FY2020 due to increase in inventory days from 128 days in FY2020 to 147 days in FY2021. The group receives large orders in both companies and hence due to the tailor made nature of products, the group maintains large stock of inventory. The debtor days stood at 76 days in FY2021 compared to 74 days in FY2020. Acuité believes that the working capital operations of the group will improve yet remain intensive over the medium term as evident from high inventory holding period.

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. Accordingly, any adverse movement in prices of raw materials impacting the margins and thereby deterioration in financial risk profile of the group.

Rating Sensitivities

- Sustenance of the business risk position
- Deterioration in the working capital cycle
- Improvement in the financial risk position

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.10 Cr in FY2022 as against long term debt repayment of Rs.2.90 Cr over the same period. The current ratio stood comfortable at 1.30 times as on March 31, 2021 and is expected to remain at the same level in FY22. The unencumbered cash and bank balances of the group stood at Rs.2.64 Cr as on March 31, 2021. However, the group's operations are working capital intensive which has led to high reliance on working capital borrowings, therefore the fund based limit remained utilised at 91 per cent over the seven months ended March, 2022. The group has availed Covid loan of Rs.8.96 Cr till date. Acuité believes that going forward the group's liquidity position will improve due to steady net cash accruals.

Outlook: Stable

Acuité believes that going forward, the outlook on the group will remain 'Stable' over the medium term on account of their experienced management, sound business risk position and reputed clientele. The outlook may be revised to 'Positive' in case of significant improvement in its financial risk profile or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or working capital cycle leading to deterioration in liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	122.67	111.79
PAT	Rs. Cr.	5.85	5.14
PAT Margin	(%)	4.77	4.60
Total Debt/Tangible Net Worth	Times	1.52	1.26
PBDIT/Interest	Times	3.41	3.94

About the Rated Entity - Key Financials (Standalone)

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	105.84	97.79
PAT	Rs. Cr.	2.51	1.76
PAT Margin	(%)	2.37	1.80
Total Debt/Tangible Net Worth	Times	1.69	1.29
PBDIT/Interest	Times	3.78	4.02

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

- CRISIL, vide its press release dated Aug 27, 2021 had denoted the rating of Govind Steel Company Limited as 'CRISIL B+/Stable/A4; ISSUER NOT COOPERATING'.

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Feb 2021	Proposed Bank Facility	Short Term	5.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	12.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
14 Nov 2019	Cash Credit	Long Term	12.00	ACUITE BBB- Negative (Reaffirmed)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Reaffirmed)
14 Oct 2019	Letter of Credit	Short Term	3.00	ACUITE A3 (Issuer not co-operating*)
	Cash Credit	Long Term	12.00	ACUITE BBB- (Issuer not co-operating*)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Issuer not co-operating*)
03 Aug 2018	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Upgraded from ACUITE A4+)

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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB- Stable Upgraded
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 Upgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Upgraded

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Sonal Modi Analyst-Rating Operations Tel: 022-49294065 sonal.modi@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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