

Press Release**GHANKUN STEELS PRIVATE LIMITED**

February 7, 2018

**Rating Assigned**

Total Bank Facilities Rated*	Rs. 78.12 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3+

** Refer Annexure for details***Rating Rationale**

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs. 78.12 crore bank facilities of Ghankun Steels Private Limited. The outlook is '**Stable**'.

Ghankun Steels Private Limited (GSPL), started in 2004 is based out of Raipur. Company is engaged in manufacturing of Sponge Iron, MS ingots and also generates power from power plant. Company is part of a larger group, which has companies that deals in all products across the value chain in the steel industry like sponge iron, Ingot, Billet, TMT & Structural Steel.

Key Rating Drivers**Strengths****• Experienced management**

The Company is promoted by Mr. Bimal Kishore Khetan and Mr. Ankit Choudhary with experience of 30 yrs and 7 yrs respectively in the steel sector. The promoters of the company are experienced in manufacturing of Iron and Steel and belong to Khetan Family, Tola Family and Chowdhary family. Promoters have been engaged in trading of Iron and Steel Products for the past 30-40 years. The company enjoys strong customer base with long standing relationship with the customers.

• Funds infusion by promoters

The net worth of the company stood at Rs. 96.83 cr as on March 31, 2017 up from Rs. 65.01 cr as on March 31, 2015. Net worth mainly comprise of Rs. 57.76 cr of quasi equity and Rs. 34.24 cr of reserves as on March 31, 2017. The working capital borrowings stand at Rs. 22.14 cr while long term loan is at Rs. 35.82cr as on March 31, 2017.

• Integrated Operations of the group

The group is engaged in products across the value chain in the iron and steel industry. Group deals with products such as Sponge Iron, Ingot, Billet, Structural Steel and TMT. Further company has built up 9.5 MW power plant which will cater to both needs of the company and group. Group will benefit from in house power plant in Ghankun which will cater to power requirements across the group.

Weaknesses**• Financial risk profile impacted by recent capex**

The company's financial risk profile is moderate with gearing at 0.60 times as on March 31, 2017 stretched compared to 0.33 times as on March 31, 2016, total debt of Rs. 57.97 cr as on March 31, 2017 compared to Rs. 29.43 cr as on March 31, 2016. Interest coverage improved at 1.79 times and DSCR at 1.64 times ending FY2017. Networth is at Rs.96.83 crore as on March 31, 2017. The company has incurred a capex of Rs. 54cr

for building 9.5MW power plant in Raipur funded by term loan of Rs. 34.4 cr and promoter's funds of 19.6 cr. The capex is completed in Sep, 2017. The company has operating margins of 6.65% in FY17 compared to 5.66% in FY16, the net margins of the company stood at 1.14% in FY17. SMERA believes that financial risk profile will improve with the completion of the capex and GSPL would benefit with the power plant as this would lower the power cost for the company.

• **Susceptible to fluctuations in iron prices**

Iron ore prices are highly volatile in nature and are largely dependent on global factors. Although, the company is able to pass on the price volatility to the customers but the same is being done with a lag. Iron being the major raw material for the company, volatility in the prices impacts the profitability of the company.

• **Competitive and fragmented nature of industry**

The company competes with some of the major players in the iron and steel industry thus limiting the pricing power. Also, the company competes with unorganised segment which forms a major part of this market. SMERA believes the company's ability to add new customers would be a key factor for supporting revenues in the medium term.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of GSPL to arrive at the rating.

Outlook: Stable

Team believes that the outlook of the GSPL will remain stable over the medium term on account of established market position and experienced management. Outlook will be revised to positive if firm able to increase scale of operations while maintaining healthy profitability. On the contrary; the outlook will be revised to negative in a scenario of decline in the scale of operations resulting into decline in the revenues affecting margins and liquidity.

About the Project

Not Applicable

About the Group

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	128.38	124.08	126.35
EBITDA	Rs. Cr.	8.54	7.03	6.54
PAT	Rs. Cr.	1.46	1.61	0.55
EBITDA Margin	(%)	6.65	5.66	5.18
PAT Margin	(%)	1.14	1.30	0.43
ROCE	(%)	5.34	6.77	12.36
Total Debt/Tangible Net Worth	Times	0.60	0.33	0.21
PBDIT/Interest	Times	1.79	1.78	1.76
Total Debt/PBDIT	Times	6.30	3.50	1.92
Gross Current Assets (Days)	Days	222	255	169

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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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
Term Loan	Not Applicable	Not Applicable	Not Applicable	34.37	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA BBB- / Stable
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A3+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A3+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	SMERA A3+

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ABOUT SMERA

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