

## Press Release

### Fortune Metaliks Limited

16 March, 2018



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 165.00 Cr.
<b>Long Term Rating</b>	SMERA BBB/ Outlook: Stable
<b>Short Term Rating</b>	SMERA A3+

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (**read as SMERA triple B**) and short term rating of '**SMERA A3+**' (**read as SMERA A three plus**) on the Rs. 165.00 crore bank facilities of Fortune Metaliks Limited (FML). The outlook is '**Stable**'.

Incorporated in 2008- Fortune Metaliks Limited is part of the Fortune group promoted by Mr. Bhagwan Dass Bansal. The company is engaged in manufacturing of billets, TMT bars and structural steel products. The manufacturing unit is located in Raipur (Chhattisgarh) with installed capacity 96,000 metric tonnes per annum (MTPA) of billets, 1,08,000 (MTPA) of TMT bars and 72,000 MTPA for structural steel products. Currently the operations are managed by the second generation of the Bansal family. The company sells its product under the brand name of "Fortune".

### About The Group

The Fortune group was promoted by Mr. Bhagwan Dass Bansal. The group is engaged in manufacturing of TMT bars, GI Pipes, MS pipes and structural steel. The flagship company of the group (Fortune Metals Limited) was incorporated in 2004 and is engaged in TMT bars, GI pipes, MS Pipes. The manufacturing unit is located in Punjab while the GI Pipes and MS Pipes unit is located in Raipur. In 2007, the Bansal family led by Mr. Bhagwann Dass Bansal promoted Fortune Metaliks Limited engaged in TMT bar manufacturing and structural steel manufacturing with the unit located in Raipur (Chhattisgarh). The business is managed by Mr. Bhagwann Dass Bansal along with 2nd generation of the Bansal family namely Mr. Deep Bansal and Mr. Saurabh Bansal.

### Analytical Approach

The team has taken a consolidated view of the business and financial risk profile of Fortune Metaliks Limited and Fortune Metals Limited while assigning the ratings. This is on account of the common ownership, same line of business and cross guarantees between each other. The group is collectively referred to as the Fortune Group.

### Key Rating Drivers

#### Strengths

##### Experienced management and long track record of operations

The Fortune group has a track record of over a decade in the iron and steel industry. The flagship company of the group (Fortune Metals Limited) was promoted by Mr. Bhagwann Dass Bansal who has over four decade of experience in the iron and steel industry. Currently, the second generation promoters have also been inducted into the business led by Mr. Deep Bansal and Mr. Saurabh Bansal along with Mr. Bhagwann Dass Bansal.

##### Established market position and healthy scale of operations

Fortune group has an established market position in the eastern, northern and southern states of India.

Fortune Metaliks Limited is selling its TMT Bars in the eastern parts of India in the state of Chhattisgarh, Madhya Pradesh and Bihar.

Fortune Metals Limited is selling its TMT Bars in the northern part of India in the states of Punjab, Haryana, Delhi on account of its plant being located in Punjab. The GI and MS Pipes are sold in the northern states along with states of Maharashtra and Tamil Nadu. The group is selling its TMT bars, GI Pipes and structural steel products under the brand name "Fortune".

The established presence is also reflected from the consolidated revenue of Rs 812.89 crs in FY 17 as against Rs 778.18 crs in FY 16. During the current year the group has registered revenue of Rs 786.87 crs till January 18 (provisional).

### **Healthy financial risk profile**

The healthy financial risk profile of the group is marked by its healthy net worth, moderate gearing and debt protection metrics. The net worth of the group stood at healthy levels of Rs 177.53 crore in FY2017 as against Rs 169.22 crs in FY 2016. To arrive at the net worth, SMERA has considered Rs 13.77 crs of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to banks. Debt equity stands moderate at 1.80 times in 2017 as compare to 1.73 times in FY 2016. Total debt of Rs 319.72 crore in FY 2017 consist of long term loan of Rs 91.47 crore and Rs 228.26 crore of short term working capital facilities. The interest coverage ratio and DSCR stood moderate at 1.76 times and 1.16 times in FY 2017 as compare to 1.77 times and 1.17 times respectively in FY 2016. The NCA /TD stood at 0.07 times in FY 2017 as compare to 0.07 times in FY 2016.

### **Established relationship with customers and suppliers**

The group has established relationship with the customers and suppliers which have resulted in stable business risk profile for the group. The group is selling its TMT bars used for construction purpose to dealers/ distributors in the states of Chhattisgarh, Madhya Pradesh, Bihar, Jharkhand Punjab, Haryana and Delhi. The GI pipes and MS pipes are sold to the dealers / distributors of Chhattisgarh, Madhya Pradesh, Maharashtra and Tamil Nadu. The group has also started export from FY 2017-18, where GI pipes are being sold in the European countries. The exports have accounted for ~ Rs 25 crs till now. The group procures raw materials in the form of sponge iron, billets/ ingots, HR coils from the local players of Chhattisgarh and Punjab.

### **Weaknesses**

#### **Working capital intensive operations**

The operations are working capital intensive in nature marked by gross current asset (GCA) days of 168 in FY 2017 as against 165 days in FY 2016. The moderate GCA days on account of debtor days of 82-98 during the period under review. The group on an average provides credit period of 60-90 days to its customers. The inventory generally maintained between 30-50 days for its raw materials like sponge iron, billets and HR coils. On an average the group utilizes 90-95 per cent of its fund based working capital facilities.

#### **Debt funded capex plan**

The group is planning to undertake a capex in Fortune Metals Limited for backward integration of its TMT manufacturing unit. The proposed unit will have billet manufacturing capacity for captive consumption for TMT bars. The capex is around Rs 44 crs which would be funded through term loan and promoters contribution in the ratio of 65:35. Going forward, maintaining its financial risk profile through the planned capex would remain a key rating sensitivity.

#### **Exposure to inherent cyclicity in the steel industry**

The profit margins and sales of the group remains exposed to inherent cyclicity in the steel and industry.

### Outlook: Stable

SMERA believes that Fortune Group will continue to benefit over the medium term from the promoters long experience in iron and steel industry. The outlook may be revised to 'Positive' if Fortune group achieves more than envisaged sales and profitability while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the group fails to achieve growth in revenue and financial risk profile further deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	812.89	778.18	767.60
EBITDA	Rs. Cr.	58.34	51.01	47.66
PAT	Rs. Cr.	8.26	7.96	6.77
EBITDA Margin	(%)	7.18	6.55	6.21
PAT Margin	(%)	1.02	1.02	0.88
ROCE	(%)	9.43	9.26	18.64
Total Debt/Tangible Net Worth	Times	1.80	1.73	2.00
PBDIT/Interest	Times	1.76	1.77	1.70
Total Debt/PBDIT	Times	5.26	5.42	5.20
Gross Current Assets (Days)	Days	168	165	135

### 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>
- 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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	96.80	SMERA BBB/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	43.70	SMERA BBB/ Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A3+
Proposed Fund Based	Not Applicable	Not Applicable	Not Applicable	21.50	SMERA BBB/ Stable

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