

Press Release

GARG CASTEELS PRIVATE LIMITED

March 28, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-** (read as SMERA BB minus) and short term rating of '**SMERA A4+** (read as SMERA A four plus) on the Rs. 15.00 crore bank facilities of GARG CASTEELS PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 1991 as a private limited company, GCPL is engaged in manufacturing of Mild Steel (MS) billets, MS Angles, MS channels, MS Beams and other such structural steel products. The billets are consumed in house for manufacturing of MS Angles, MS Channels & MS Beams. The company is promoted by Mr. Arun Jain, Mr. Bineet Kumar Jain and Mr. Mantresh Kumar Jain. GCPL is also engaged in the manufacturing of investment castings which finds application in automotive parts, compressor parts, textile machinery parts, agriculture parts and other engineering products. GCPL is the Tier I manufacturer for Royal Enfield and Tier II manufacturer for Ferrari. GCPL's plant, located in Bhavnagar, is equipped to manufacture 36,000 Metric Tonnes Per Annum of billets, 28,000 MTPA of rolled products and 360 MTPA of investment castings.

Key Rating Drivers

Strengths

- **Experienced promoters in steel industry and established operational track record**

GCPL has an established track record of more than two decades and the promoters are well experienced in the line of business. All the directors collectively look after the business. Over the years, the company has developed market for its products and established good relations with various customers.

- **Proximity to raw materials**

The location of the company is strategically close to the main raw material location (i.e. scrap). The raw materials are procured from Alang Ship Breaking Yard & Pipavav & Kandla. This enables the company to save transportation costs and improvement in overall profitability.

- **Moderate financial risk profile**

GCPL has a moderate financial risk profile marked by networth of Rs.13.38 crore as on 31 March 2017. Debt-to-equity ratio increased to 1.59 times as on 31 March 2017 against 1.39 times of 31 March 2016. Total debt of Rs.21.24 crore mainly comprises of working capital borrowings of Rs.13.26 crore, unsecured loans from directors and relatives of Rs.5.91 crore and secured long term bank borrowing of Rs. 2.06 crore. Interest coverage ratio (ICR) stood at 1.33 times for FY2017 against 1.40 times for FY2016. SMERA believes that going forward; the gearing will remain comfortable, in the absence of any debt funded capex plans.

Weaknesses

- **Vulnerability of profitability to fluctuations in raw material prices**

In the steel industry, production costs and profit margins are heavily dependent on raw material prices. Primary raw material for the company is steel scrap which accounts for majority of the total cost. The prices of raw material are volatile and are dependent on the demand-supply situation. The company has its presence in a highly fragmented industry marked by the presence of large number of small non-integrated

players.

• **Working capital intensive nature of operations**

GCPL operates in working capital intensive nature of operations marked by high Gross Current Asset (GCA) days of 350 days for FY2016-17 which increased from 315 days for FY2015-16. This is majorly on account of inventory days which increased from 255 for FY2015-16 to 273 in FY2016-17. Inventory days stand high mainly owing to the nature of the business and at the same time considering the fact that GCPL has to maintain high inventory as it not only manufactures MS billets, but it is also engaged in the manufacturing of MS Channels, beams and angles, which is a forward integration operation of MS billets (which are captively consumed). GCPL is engaged in manufacturing investment castings also for which the product development cycle ranges from six months to twelve months. Owing to which, it has to keep the tools & dyes under the inventory for a longer period. Also, the utilisation of bank facilities is almost full.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that GCPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of substantial increase in scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its financial risk profile on account of larger-than-expected working capital requirements or decline profitability margins.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	32.56	31.87	44.93
EBITDA	Rs. Cr.	3.13	3.15	3.41
PAT	Rs. Cr.	0.21	0.06	0.11
EBITDA Margin	(%)	9.61	9.87	7.59
PAT Margin	(%)	0.63	0.18	0.25
ROCE	(%)	7.17	7.78	16.22
Total Debt/Tangible Net Worth	Times	1.59	1.39	1.26
PBDIT/Interest	Times	1.33	1.40	1.44
Total Debt/PBDIT	Times	6.70	5.70	4.78
Gross Current Assets (Days)	Days	350	315	211

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

Care in its rationale dated 05th March, 2018 has indicated as under:- 'CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Garg Casteels Private Limited's bank facilities and instruments will now be denoted as CARE B/CARE A4; ISSUER NOT COOPERATING.'

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA BB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+

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ABOUT SMERA

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