

## Press Release

Garg Casteels Private Limited

March 17, 2020

Rating Reaffirmed & Withdrawn



|                              |   |
|------------------------------|---|
| Total Bank Facilities Rated* | Rs. 12.70 Cr.<br>(Reduced from Rs. 15.00 Cr.) |
| Long Term Rating             | ACUITE B+ / Outlook: Stable                   |
| Short Term Rating            | ACUITE A4                                     |

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 12.70 crore bank facilities of Garg Casteels Private Limited (GCPL). The outlook is '**Stable**'.

Further, Acuite has withdrawn the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 2.00 crore bank facilities of GCPL.

Gujarat based, GCPL was incorporated in 1991 by Mr. Arun Jain, Mr. Bineet Jain and Mr. Mantresh Jain. The company is engaged in manufacturing of MS billets, MS channels, MS Beams & Angles and also engaged in manufacturing 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. The manufacturing plant is located at Bhavnagar (Gujarat) with an installed capacity of 36000 MTPA of billets, 24000 MTPA of channels, beams, and 300 MTPA of investment castings.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of GCPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Established track record of operations and experienced management**

GCPL was incorporated in 1991, thus the company has an operational track record of around three decades in steel industry. The Directors, Mr. Arun Jain, Mr. Bineet Jain and Mr. Mantresh Jain have an experience of over two decades in the same line of business. The long track record of operations and experience of management has helped the company develop healthy relationships with its customers and suppliers. Acuite believes that GCPL will sustain its existing business profile on the back of established track record of operations and experienced management.

#### Weaknesses

- **Modest scale of operations and decline in profitability margins**

GCPL's revenues have grown at a CAGR of 34 per cent from FY2017 to FY2019. The operating income of the company stood at Rs. 58.47 crore in FY2019 as against Rs. 38.27 crore in FY2018. The company has registered revenue of ~Rs. 40.00 crore from April 01, 2019 - Feb 29, 2020. Further, GCPL has shown declining trend in operating profitability during the period FY2016 to FY2019 under the study. Operating margins have declined to 4.64 percent in FY2019 from 9.87 per cent in FY2016. Net margins stood thin at 0.16 in FY2019 as against 0.67 percent in FY2018.

- **Average financial risk profile**

The financial risk profile of the company remained average marked by average net worth, debt protection metrics and coverage indicators. The net worth of GCPL stood at Rs. 11.25 crore as on 31 March 2019 as against Rs. 11.15 crore as on 31 March 2018. The gearing (debt-equity) stood at 1.60 times as on 31 March 2019 as against 2.06 times as on 31 March 2018. The total debt of Rs. 18.02 crore as on 31 March 2019 mainly comprises Rs. 12.31 crore of working capital borrowings, Rs. 4.20 crore of

unsecured loans and Rs. 1.50 crore of long term debt. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) of 1.29 times for FY2019 as against 1.28 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.03 times in FY2019 and 0.04 times in FY2018. Debt to EBITDA stood high at 6.61 times in FY2019 as against 7.23 times in FY2018.

• **Moderate working capital operations**

GCPL working capital operations stood moderate marked by Gross Current Asset (GCA) of 159 days for FY2019 as against 285 days for FY2018. This is mainly on account of reduction in inventory level to 129 days for FY2019 from 220 days for FY2018. Debtors stood at 8 days for FY2019 as against 18 days for FY2018. Acuite believes that the ability of the company to maintain its working capital operations will be key rating sensitivity.

**Rating Sensitivities**

- Substantial improvement in scale of operation while maintaining profitability margin.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

**Any Material Covenants**

Monies brought in the form of unsecured loans will not be allowed to be withdrawn without the bank's permission.

**Liquidity Position: Stretched**

The company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 0.58 crore for FY2019, while its maturing debt obligations were Rs. 0.40 crore for the same period. The cash accruals of the company are estimated to remain in the range of ~Rs. 0.60 crore to Rs. 1.00 crore during 2020-22 against debt obligation in the range of ~ Rs. 0.38 crore to Rs. 0.40 crore for the same period. The company's working capital operations are moderate marked by GCA days of 159 days for FY2019. The company maintains unencumbered cash and bank balances of Rs. 0.07 crore as on 31 March, 2019. The current ratio stood at 1.88 times as on 31 March, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of moderate cash accruals to its maturing debt obligation.

**Outlook: Stable**

Acuite believes that the GCPL will maintain a 'Stable' outlook and benefit over the medium term on the back of its promoter's industry experience. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

**About the Rated Entity - Key Financials**

|                               | Unit    | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income              | Rs. Cr. | 58.47         | 38.27         |
| PAT                           | Rs. Cr. | 0.10          | 0.26          |
| PAT Margin                    | (%)     | 0.16          | 0.67          |
| Total Debt/Tangible Net Worth | Times   | 1.60          | 2.06          |
| PBDIT/Interest                | Times   | 1.29          | 1.28          |

**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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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   |
|-------------|---------------------------------|------------|------------------|---|
| 18-Mar-2019 | Cash Credit                     | Long Term  | 11.00            | ACUITE B+ / Stable (Downgraded from ACUITE BB-/ Stable) |
|             | Packing Credit                  | Short Term | 1.00             | ACUITE A4 (Downgraded from ACUITE A4+)                  |
|             | Letter of Credit                | Short Term | 2.00             | ACUITE A4 (Downgraded from ACUITE A4+)                  |
|             | Bank Guarantee                  | Short Term | 1.00             | ACUITE A4 (Downgraded from ACUITE A4+)                  |
| 28-Mar-2018 | Cash Credit                     | Long Term  | 11.00            | ACUITE BB-/ Stable (Assigned)                           |
|             | Packing Credit                  | Short Term | 1.00             | ACUITE A4+ (Assigned)                                   |
|             | Letter of Credit                | Short Term | 2.00             | ACUITE A4+ (Assigned)                                   |
|             | Bank Guarantee                  | Short Term | 1.00             | ACUITE A4+ (Assigned)                                   |

### \*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                       | ACUITE B+ /Stable (Reaffirmed) |
| Packing Credit         | Not applicable   | Not applicable | Not applicable | 1.00                        | ACUITE A4 (Reaffirmed)         |
| Bank Guarantee         | Not applicable   | Not applicable | Not applicable | 0.70                        | ACUITE A4 (Reaffirmed)         |
| Letter of Credit       | Not applicable   | Not applicable | Not applicable | 2.00                        | ACUITE A4 (Withdrawn)          |

### Contacts

| Analytical   | Rating Desk   |
|--|---|
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**About Acuite Ratings & Research:**

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