

Press Release

Garg Casteels Private Limited

March 17, 2020



Rating Reaffirmed & Withdrawn

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

* Refer Annexure for details

Rating Rationale

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Further, Acuité has withdrawn the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 2.00 crore bank facilities of GCPL.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

Acuité 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. Acuité 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. Acuité 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. Acuité 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

Acuité 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)

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About Acuité Ratings & Research:

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