

Press Release

Giriraj Exim Private Limited

June 25, 2019



Rating Downgraded

Total Bank Facilities Rated	Rs. 40.00 crore
Long Term Rating	ACUITE BBB-/ Stable (Downgraded from ACUITE BBB/ Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) on Rs. 40.00 crore bank facilities of Giriraj Exim Private Limited (GEPL). The outlook is '**Stable**'.

The rating downgrade has been driven by deterioration in the financial risk profile and stretched liquidity position. The total debt increased from Rs. 101.36 crore in FY2017 to Rs. 128.38 crore in FY2018, thereby increasing its debt-equity (gearing) to 3.04 times in FY2018 compared to 2.69 times in FY2017. TOL/TNW stood at 4.17 times as on March 31, 2018 as compared to 3.92 times as on March 31, 2017. The group's liquidity profile is stretched marked by ~95-98 percent utilisation of bank limits during the 6-month period ended April 2019.

Giriraj Iron Limited (GIL) and Giriraj Exim Private Limited (GEPL) are together referred to as Giriraj group. Giriraj Exim Private Limited was formed in 2008 as an importer of Mild Steel (MS) Sheets.

Giriraj Iron Limited was established in 2011 as a trading company in a variety of products including H R Coil, H R Sheet, M S Coil, M S Plates, among others. Giriraj group is promoted by the Shah Family with their warehouse located at Ahmedabad (Gujarat) and business operations spread across Maharashtra and Gujarat. The Shah family is in this business since 1946. The Directors of the company, Mr. Bhadresh Shah and Mr. Shailesh Shah have 30 years of experience in the business of Steel trading.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of GIL and GEPL, together known as Giriraj Group, to arrive at this rating. The consolidation is on account of common management, similar line of business, and significant operational and financial linkages during the year. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

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

Mr. Vadilal Shah, father of Mr. Bhadresh Shah, had started the business of trading in ferrous metals in the year 1946. Mr. Bhadresh Shah started the business of trading in non-ferrous metals in 1985 through a proprietary concern, Gokul Corporation. After which, he and his brother, Mr. Shailesh V. Shah, formed a partnership firm under the name 'M/s Giriraj Steel'. This firm was converted into Giriraj Iron Limited in 2011. Currently, all the Directors look after the day to day business activities. Acuité believes that owing to the long track record of operations, it has helped the group establish and maintain long standing relations with customers and suppliers.

- **Diversified clientele and product portfolio with distributorship of SAIL and JSW**

Giriraj group operates in the domestic market and has established a diversified client network over the years. Giriraj group does not have any customer concentration risk with a network of 1400-1500 retailers across Maharashtra and Gujarat. Giriraj group's product portfolio comprises of various products including HR Coil, HR Sheet, MS Coil and MS Plates. GEPL has a channel financing facility from JSW Ltd and SAIL for the procurement of steel products. This provides continuous and uninterrupted supply of steel to the group.

- **Moderate scale of operations**

The group has recorded improving scale of operations since FY2016. The operating income of Giriraj Group stood at Rs. 645.30 crore in FY2018, as against Rs. 702.15 crore in FY2017 and Rs.458.08 in FY2016. Further, the group has clocked revenue of around Rs. 745 crore during FY2019 (Provisional). The revenue dipped to Rs. 664 crore in FY2018 owing to industry scenario and GST implementation.

Weaknesses

- **Working capital management**

The group's working capital operations are intensive marked by high Gross Current Asset (GCA) of 115 days in FY2018 compared to 90 days in FY2017. The GCA days consist of inventory of 42 days in FY2018 compared to 40 days in FY2017. The debtor days stood moderate at 56 days for FY2018 and 42 days in FY2017. The GCA also consists of other current asset component of Rs. 20.00 crore as on March 31, 2018. The working capital intensity is further reflected from the bank limit utilisation of ~ 95-98 per cent of its working capital facilities.

- **Modest financial risk profile**

The financial risk profile of the group has remained modest owing to an improved net worth, a high gearing and moderate debt protection metrics. The net worth of the group has improved from Rs. 37.75 crore in FY2017 to Rs. 42.32 crore in FY2018. Net worth includes Rs.18.46 crore of unsecured loans from Directors, which has been subordinated to the bank debt and has been treated as quasi equity by Acuité. The total debt increased from Rs. 101.36 crore in FY2017 to Rs. 128.38 crore in FY2018, thereby increasing its debt-equity (gearing) to 3.04 times in FY2018 compared to 2.69 times in FY2017. TOL/TNW stood at 4.17 times as on March 31, 2018 as compared to 3.92 times as on March 31, 2017. The interest coverage ratio and the DSCR have remained in the same line and stood at 1.24 times and 1.16 times in FY2018 compared to 1.42 times and 1.29 times in FY2017, respectively. NCA/TD has also improved and stood at 0.02 times in FY2018 as against 0.04 times in FY2017. This is mainly on account of increase in the total debt.

Liquidity Position:

The group's liquidity profile is stretched marked by high GCA days and fully utilised bank limits. The company generated cash accruals of Rs.2.40-3.92 crore during the last three years through 2017-18, while its maturing debt obligations were minimum in the range of Rs.0.03-0.22 crore over the same period. The bank limits of the company remained utilised at ~95-98 percent during the 6-month period ended April 2019. The GCA days were high at 115 days in FY2018 consisting of debtors of 56 days, inventory of 42 days and other current assets of Rs. 20.00 crore as on March 31, 2018. The current ratio of the company stands modest at 1.24 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that ASPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant improvement in working capital management along with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to further deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	645.30	702.15	458.08
EBITDA	Rs. Cr.	17.78	18.09	14.28
PAT	Rs. Cr.	2.07	3.51	2.24
EBITDA Margin	(%)	2.76	2.58	3.12
PAT Margin	(%)	0.32	0.50	0.49
ROCE	(%)	11.46	12.56	12.07
Total Debt/Tangible Net Worth	Times	3.04	2.69	3.70
PBDIT/Interest	Times	1.24	1.42	1.30
Total Debt/PBDIT	Times	7.11	5.26	7.63
Gross Current Assets (Days)	Days	115	90	147

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
06-Apr-2018	Cash credit	Long Term	40.00	ACUITE BBB/Stable (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	40.00	ACUITE BBB-/Stable (Downgraded from ACUITE BBB/Stable)

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About Acuité Ratings & Research:

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