

## Press Release

### TGS Minmet Private Limited

03 May, 2018



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 35.00 Crore
<b>Long Term Rating</b>	SMERA BB/Stable (Assigned)
<b>Short Term Rating</b>	SMERA A4+ (Assigned)

\*Refer Annexure for details

### Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.35.00 crore bank facilities of TGS Minmet Private Limited (TMPL). The outlook is '**Stable**'.

TMPL is a Visakhapatnam-based company incorporated in 2014 by Mr. Grandhi Rajesh and Mr. Raghunath Konathala. The company is engaged in the trading of coal (Coking and Non-Coking coal), iron and steel products. TMPL took over the existing business of Saikruthi Minmet (India) Private Limited during FY2015-16 which was engaged in the same line of business since 2012. TMPL derives 80 percent of its revenue from non-coking coal and the remaining from coking coal, iron and steel products. The company imports coal from Australia, Indonesia and South Africa whereas iron and steel is procured from domestic market. TMPL caters to reputed clients, namely, Jindal Steel and Power Limited, Visa Suncoke Limited, Hinduja National Power Corporation Limited among others.

### Key rating drivers

#### Strengths

##### Experienced promoters

Mr. Rajesh Grandhi and Mr. Raghunath Konathala collectively possess more than a decade of experience in the import and export of the above. TMPL benefits from the extensive experience of its promoters.

The top management is ably supported by well qualified and experienced second line of management. Going forward, SMERA believes that the company will maintain its business risk profile on account of its established position and experienced promoters.

#### Improvement in revenue

TMPL reported significant growth in operating income to Rs.279.54 crore in FY2016-17 from Rs.131.99 crore in FY2015-16. However, the company reported stable operating income of Rs.292.00 crore for FY2018 (Provisional). The non-coking coal contributed 80 percent to total revenue in FY2017. The growth was also supported by growing demand for non-coking coal from the domestic steel and power companies. TMPL caters to reputed clients spread across steel manufacturing, power and mining industries. Presently, the company has unexecuted order book of Rs.50.00 crore which is expected to be executed over the next three months. Going forward, SMERA believes that the company will maintain its stable revenue growth on account of its favourable demand for imported coal in the domestic market.

#### Weaknesses:

##### Thin profit margins, volatility in coal prices and forex rates

The profit margins are thin due to the trading nature of business. The operating margins improved to 3.16 percent in FY2018 (Provisional) as against 1.93 percent in the previous year. Further, the profit after tax (PAT) margin stood at 1.18 percent in FY2017-18 (Provisional) compared to 0.50 percent in FY2016-17. As the company deals with imported coal, the profitability of TMPL is susceptibility to volatility in international coal prices owing to modest inventory holdings and fluctuations in forex rates in the absence of adequate hedging mechanism.

## Moderate financial risk profile

TMPL has moderate financial risk profile marked by net worth of Rs.10.66 crore as on March 31, 2017 compared to Rs.4.86 crore as on March 31, 2016. The management infused Rs.4.00 crore of equity during FY2016-17. The debt-to-equity stood at 1.36 times as on March 31, 2017 as compared to 0.66 times as on March 31, 2016. The total debt of Rs.14.47 crore includes long term debt of Rs.0.93 crore, unsecured loan of Rs.2.80 from related party and working capital of Rs.10.74 crore as on March 31, 2017. The Interest coverage Ratio stood at 1.98 times in FY2016-17 as compared to 1.89 times in FY2015-16. The Total outside Liabilities/Tangible Net Worth(TOL/TNW) stood at 5.44 times as on March 31, 2017 as against 10.93 times as on March 31, 2016.

## Stretched liquidity position

The operations are working capital intensive marked by Gross Current Assets (GCA) of 80 days in FY2016-17 as against 154 days in the previous year. The company operates at stretched liquidity position as the working capital limits have been fully utilised during the last six months ended 31 March, 2018. The stretched GCA days are on account of stretched debtor days at 71 in FY2016-17 as against 95 in the previous year. However, debtors are expected to further improve going forward as 60 percent of the bills are backed by the Letter of credit which is being discounted by TMPL. Further, the working capital limits are expected to be enhanced by the bank going forward to support the additional working capital requirement. SMERA believes that the enhancement in working capital will be important for the company to support its additional working capital requirement.

## Analytical approach

SMERA has considered the standalone business and financial risk profile of TGS Minmet Private Limited for arriving at the rating.

## Outlook: Stable

SMERA believes that TMPL will maintain a 'Stable' outlook over the medium term owing to its reputed clientele and experienced promoters in the coal trading business. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in net cash accruals or deterioration in the liquidity profile on account of higher than expected working capital borrowings.

## Applicable Criteria

- Trading Entities – <https://www.smera.in/criteria-trading.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

## About the Rated Entity -Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	279.54	131.99	33.13
EBITDA	Rs. Cr.	5.38	1.72	0.30
PAT	Rs. Cr.	1.80	0.67	0.19
EBITDA Margin	(%)	1.93	1.30	0.92
PAT Margin	(%)	0.64	0.50	0.59
ROCE	(%)	33.55	47.30	85.07
Total Debt/Tangible Net Worth	Times	1.36	0.66	1.92
PBDIT/Interest	Times	1.98	1.89	54.96
Total Debt/PBDIT	Times	2.57	1.54	1.55
Gross Current Assets (Days)	Days	80	154	261

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the 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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA A4+

**Note on complexity levels of the rated instrument:**

<https://www.smerra.in/criteria-complexity-levels.htm>

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## ABOUT SMERA

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