

Press Release

Global Steel Company

July 4, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 18.17 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A4**) on the Rs. 18.17 crore bank facilities of Global Steel Company. The outlook is '**Stable**'.

Global Steel Company (GSC), a Secunderabad-based firm incorporated 2009, is promoted and managed by Mr. Rishi Agarwal. This proprietorship concern is engaged in construction of pre-engineered buildings and road over bridges.

Key Rating Drivers

Strengths

- Experienced management**

GSC was established as a proprietorship firm in 2009 by Mr. Rishi Agarwal. Under the guidance of his father, he has gained experience of around a decade in iron and steel industry. Acuité believes that the promoter's experience in the industry has helped the firm to maintain long standing relationship with suppliers and customers.

- Moderate financial risk profile**

The moderate financial risk profile is marked by gearing (debt-to-equity) of about 0.82 times as of March 31, 2018 (Provisional) and 0.94 times as of March 31, 2017. Interest Coverage Ratio (ICR) is moderate at 2.24 times in FY2017. Total outside Liabilities to Total Net Worth (TOL/TNW) stood at 2.87 times as on 31 March, 2017. On provisional basis, gearing and TOL/TNW are expected to be in similar levels in FY2018 due to stretch in trade payables. Acuité believes that the ability of the concern to improve its capital structure by infusion of own funds would be the key rating sensitivity in the medium term.

Weaknesses

- Working capital intensive operations**

The operations of the firm are working capital intensive marked by high Gross Current Assets (GCA) of 303 days in FY2017. The same is on account of high inventory holding period and debtor days which stood at 155 days and 123 days respectively in FY2017. The firm has stretched its trade payables to 183 days in FY2017 on account of delayed payments from customers. Further, the GCA days are estimated to be at similar levels in FY2018. The firm has invested Rs.4.00 crore on purchase of imported welding machine in FY2017; this is majorly funded by term loan of Rs.2.50 crore and internal accruals of Rs.1.50 crore. High GCA resulted in full utilisation of overdraft limits; also, there were instances of over drawings in overdraft account but not exceeded adhoc limit provided by banks. Further, the firm is planning to purchase another machine in the near term. Acuité believes that the working capital intensity is expected to further increase with requirement of additional stock and receivables position, though to some extent mitigated by additional borrowings that the firm is looking to finance from the bank.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the GSC to arrive at this rating.

Outlook: Stable

Acuité believes that GSC will maintain a 'Stable' outlook in the medium term on account of the established presence of the promoters in this industry. The outlook may be revised to 'Positive' in case if the entity registers significant growth in its revenues while improving its profitability and capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of stretch in its receivables or deterioration of its working capital management and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	39.46	40.16	42.58
EBITDA	Rs. Cr.	2.83	2.91	6.28
PAT	Rs. Cr.	0.47	0.30	0.33
EBITDA Margin	(%)	7.17	7.24	14.75
PAT Margin	(%)	1.19	0.74	0.78
ROCE	(%)	8.47	9.99	26.51
Total Debt/Tangible Net Worth	Times	0.82	0.94	2.70
PBDIT/Interest	Times	2.24	1.55	1.55
Total Debt/PBDIT	Times	3.73	3.75	5.37
Gross Current Assets (Days)	Days	397	303	275

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entity in Manufacturing Sector - <https://acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.17	ACUITE B / Stable
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4

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About Acuité Ratings & Research:

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