

Press Release

Shree Gopal Govind Sponge Private Limited

August 24, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.15 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4 +**' (**read as ACUITE A four plus**) to the Rs.11.15 crore bank facilities of Shree Gopal Govind Sponge Private Limited (SGSPL). The outlook is '**Stable**'.

SGSPL, a West Bengal based company was incorporated in 2000 and is engaged in the business of manufacturing of sponge iron. The installed capacity is 150 tons per day. The company procures its key raw materials such as coal, iron ore mainly from various players located in West Bengal and Odisha. The company sells its produce mainly to its group company, viz. Shree Gopal Concrete Private Limited (SCPL).

Shree Gopal Concrete Private Limited (SCPL), a West Bengal based company was incorporated in 2005 and is engaged in the business of manufacturing of billets, TMT bars and cement. The installed capacity for TMT, Billet, Cement is 300 tons per day, 350 tons per day and 500 tons per day respectively. The company sells the TMT bars under the brand names 'Prime Gold', 'Shree Gopal', 'Ramleela' and cement is sold under the brand name 'Prime Gold'.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Shree Gopal Concrete Private Limited, Shree Gopal Govind Sponge Private Limited together referred to as the Shreegopal Group (SG). The consolidation is in view of the common management and significant operational linkages between the two entities.

Key Rating Drivers:

Strengths

• Experienced management along with long track record of operation

Shree Gopal Concrete Private Limited (SCPL) was incorporated in 2005, whereas Shree Gopal Govind Sponge Private Limited (SGSPL) was incorporated in 2000. The promoters, Mr. Ram Kumar Sarda, Mr. Vishal Sarda and Mr. Shiv Kumar Sarda have experience of more than two decades in this industry. Acuité believes that the extensive experience of the promoters will help to strengthen the business of the group over the medium term.

• Healthy financial risk profile

SG has moderate financial risk profile marked by healthy net worth which stood at Rs. 75.62 crore as on 31 March, 2018 (Provisional) as against Rs.64.65 crore as on 31 March, 2017. The gearing stood comfortable at 0.85 times as on 31 March, 2018 (Provisional) as against 0.83 times as on 31 March, 2017. The debt of Rs.64.55 crore mainly consists of term loans of Rs.25.52 crore, unsecured loans of Rs.1.19 crore and working capital limits of Rs.37.84 crore as on 31 March, 2018 (Provisional). The interest coverage ratio stood at 2.27 times in FY2018 (Provisional) as against 1.99 times in the previous year. The debt service coverage ratio (DSCR) stood at 2.47 times in FY2018 (Provisional) as against 1.29 times in the previous year. The NCA/TD stood at 0.16 times as on 31 March, 2018 (Provisional) as against 0.08 times in the previous year.

Weaknesses

• Thin profitability margins

SG's operating margin stood at 4.99 percent in FY2018 (Provisional) as compared to 3.08 percent in FY2017. Profit after tax (PAT) showed fluctuating trend and PAT margin stood thin at 1.61 percent in FY2018 (Provisional) compared to 0.56 percent in FY2017. The thin profitability is primarily on the steel industry down turn. This has led to thin RoCE of 8.21 percent in FY2018 (Provisional), 7.13 percent in FY2017 and 8.66 percent in FY2016.

• Working capital intensive operations

SG's operations are working capital intensive in nature marked by high Gross Current Assets of 180 days in FY2018 (Provisional) compared to 131 days in FY2017. The GCA days are mainly dominated by high debtor days of 108 days in FY2018 (Provisional) compared to 74 days in FY2017. The inventory days stood around 51 days in FY2018 (Provisional) as compared to 28 days in the previous year. The working capital cycle stood at 63 days in FY2018 (Provisional) as compared to 66 days in FY2017. The elongation in working capital has been mainly due to stretched creditors which mainly comprises of inter-company transactions between SCPL and SGSPL.

• Competitive and fragmented industry

SG operates in a highly fragmented industry with limited entry barriers where in the presence of large numbers of players in the unorganised sector limits the bargaining power with customers.

Outlook: Stable

Acuité believes that the outlook will remain 'Stable' over the medium term. The company will continue to benefit from its long track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues while achieving significant improvement in profit margins. Conversely, the outlook maybe revised to 'Negative' in case of steep decline in revenue and profit margins or significant deterioration in the financial risk profile.

About the Rated Group - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	308.49	308.47	297.36
EBITDA	Rs. Cr.	15.39	9.49	11.69
PAT	Rs. Cr.	4.97	1.73	2.23
EBITDA Margin	(%)	4.99	3.08	3.93
PAT Margin	(%)	1.61	0.56	0.75
ROCE	(%)	8.21	7.13	8.66
Total Debt/Tangible Net Worth	Times	0.85	0.83	0.65
PBDIT/Interest	Times	2.27	1.99	1.98
Total Debt/PBDIT	Times	4.11	5.04	3.15
Gross Current Assets (Days)	Days	180	131	115

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>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-4.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)

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.80	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A4+

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Debalina Maity Analyst - Rating Operations Tel: 033-66201212 debalina.maity@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.