



Press Release

Garg Steels

October 17, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-'** (read as **ACUITE double B minus**) to the Rs. 12.00 crore bank facilities of GARG STEELS (GS). The outlook is '**Stable**'.

Garg Steels (GS) is a partnership firm established in 2005 by Mr. Suresh Garg, Mr. Amit Garg, Mrs. Shruti Garg in Jalandhar (Punjab). The firm is engaged in trading of steel products such as CR coils, HR Coil, HR Sheets, HR Plates. GS is an authorised distributor of Steel Authority of India Limited (SAIL).

Analytical Approach

Acuité has considered standalone business and financial risk profile of GS to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Mr. Suresh Garg has an experience of more than 3 decades in the steel industry through his association with Subhash Chandra & Sons since 1982 and with Garg Steels since 2005. Mr. Amit Garg and Mrs. Shruti Garg also has a decade of experience in the steel industry.

- **Moderate working capital management**

The working capital management of the firm is moderate marked by Gross Current Assets (GCA) of 69 days in FY2018 (Provisional) as against 89 days in FY2017. The moderate GCA is on account of comfortable debtors of 31 days and Inventory of 35 days in FY2018 (Provisional). The average bank limit utilisation for the past six months stood at more than 90 percent. Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Weaknesses

- **Weak financial risk profile**

The financial risk profile of the group is weak marked by net worth of Rs.6.68 crore as on 31 March, 2018 (Provisional) as compared to Rs.6.95 crore as on 31 March, 2017. It includes unsecured loans of Rs.2.20 crore which is considered as quasi equity. The adjusted gearing (debt-equity) is 2.94 times as on 31 March, 2018 (Provisional) as compared to 2.49 times as on 31 March, 2017. Total debt mainly includes working capital borrowings of Rs.18.92 crore as on 31 March 2018 (Provisional). The Interest Coverage ratio (ICR) stood at 1.47 times in FY2018 (Provisional) as compared to 1.13 times in FY2017. The total outstanding liabilities to total net worth (TOL/TNW) is 3.22 times as on 31 March, 2018 (Provisional) as compared to 2.80 times as on 31 March, 2017.

• Low profitability margins

The PAT margin of the firm is 0.53 percent in FY2018 (Provisional) as compared to 0.16 percent in FY2017 and 0.24 percent in FY2016. Also, EBITDA margin is 1.77 percent in FY2018 (Provisional) as against 1.76 percent in FY2017.

• Cyclical nature of steel industry and highly competitive industry

The firm is exposed to inherent cyclical nature in the steel industry and has presence in a highly fragmented and competitive steel trading industry. Also, there is susceptibility to volatile raw material prices.

Outlook: Stable

Acuite believes Garg Steels will maintain a 'Stable' business risk profile in the medium term on account of its experienced and qualified management. The outlook may be revised to 'Positive' if the firm registers higher than expected revenue and liquidity position while maintaining profitability margins. Conversely, the outlook will be revised to 'Negative' in case of significant decline in firm's revenue and profitability or in case of higher than expected debt funded working capital requirement leading to strain on its debt servicing ability.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	147.15	106.44	78.16
EBITDA	Rs. Cr.	2.60	1.88	1.61
PAT	Rs. Cr.	0.78	0.17	0.18
EBITDA Margin	(%)	1.77	1.76	2.06
PAT Margin	(%)	0.53	0.16	0.24
ROCE	(%)	10.08	8.67	9.22
Total Debt/Tangible Net Worth	Times	2.94	2.49	3.10
PBDIT/Interest	Times	1.47	1.13	1.15
Total Debt/PBDIT	Times	7.54	9.21	8.40
Gross Current Assets (Days)	Days	69	89	97

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>

Note on complexity levels of the rated instrument

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

Rating History (Up to 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	12.00	ACUITE BB- / Stable (Assigned)

Contacts

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About Acuite Ratings & Research:

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