

Press Release

Prabhat Global Colourcoated Private Limited

October 30, 2021



Rating Reaffirmed, Withdrawn

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 60.00 Cr. |
| Long Term Rating | ACUITE BBB+/Outlook: Stable (Reaffirmed & Withdrawn) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB+** (read as ACUITE triple B plus) on the Rs.60.00 Cr bank facilities of Prabhat Global Colourcoated Private Limited. The outlook is 'Stable'.

Further, Acuité has also withdrawn the long-term rating of '**ACUITE BBB+** (read as ACUITE triple B plus) on the Rs.06.00 Cr. proposed bank facilities of Prabhat Global Colourcoated Private Limited.

The reaffirmation of rating is reflected from the improving nature of the scale of operations along with improving profitability and improving financial risk profile over the last 3 years. The revenues increased to Rs. 493 Cr in FY2021 against Rs. 396 Cr in FY2020 and Rs.197 Cr in FY2019. The continual improvement is on account of improved capacity utilization levels to ~75 per cent in FY2021 from ~65 per cent in FY20 and 33 percent in FY19 which has enabled the company to cater to greater order sizes. Further, PGCPL has reported revenues of Rs. 322 Cr during 5MFY22 ending August, 2021 and expect to achieve revenue greater than Rs. 600 Cr during FY2022 owing to healthy order flow and optimal utilization of the capacity at 100 percent. The rating is also supported by the company's improving financial risk profile marked by healthy net worth and debt protection measures and low gearing profile. The company has also continuously maintained a healthy liquidity profile marked by the healthy cash accruals position against nil debt obligations while prepaying the term debt obligations and the judicious utilization of its working capital bank facilities at an average 60 percent over the last 10 months ended July, 2021.

About the company

Prabhat Global Colourcoated Private Limited (PGCPL) was incorporated in 2017 and is engaged in manufacturing of galvanized coils in to PPGI/PPGL sheets. The day to day operations are managed by Mr. Girish Jain, who is the managing director, along with other directors, Mr. Karan Jain and Mr. Kunal Jain. The commercial operations in the company started in Sept. – Oct, 2018 and the manufacturing unit is situated in Khopoli with an installed capacity of 100000 MT/annum.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of PGCPL to arrive at the rating.

Key Rating Drivers

Strengths

- Extensive experience of promoters; association with reputed clientele**

PGCPL is promoted by its managing director, Girish Satshchandra Jain along with other directors, Mr. Kunal Jain, Mr. Karan Jain and Mrs. Sushma Satshchandra Jain who collectively possess experience of more than three decades in the steel industry. Mr. Girish Jain has an extensive experience of more than three decades in steel industry and identified an opportunity in this segment of industry when he started PGCPL in 2017. He has been engaged in trading of all types of steel except for scarp and also engaged in rolling mill business. The day to day operations and management are also taken care of by his sons Mr. Karan Jain and Mr. Kunal Jain. The extensive experience has enabled the company to forge healthy relationships with reputed companies like Isopan Est. IRL, Tata Steel Ltd, Arcelormittal Nipponsteel India Ltd among others. Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers and suppliers.

- Improving scale of operations over the last 3 years; no major impact of pandemic**

PGCPL's operational capacity utilization has improved over the last 3 years which led to an improvement

in facilitating improved size of orders from customer. This has led to the improvement in the operating revenue at Rs. 494 Cr in FY2021 against Rs. 397 Cr in FY2020 and Rs. 198 Cr in FY2019. The improvement is also attributable to orders from export clientele given the increased export revenues at 43 percent in FY2021 against 25 percent in FY2020. Despite the onset of pandemic and lockdown regulations, the operations have stably improved over the twelve months in FY21 supported by adequate inflow of orders. The company's revenues are further expected to improve in the near term to medium term on account of optimal capacity utilization at 100 percent in FY2022 (as planned and in implementation by management) and moreover, for 5MFY22 the company has reported revenue of Rs. 322 Cr with an unexecuted order size of Rs. 228 Cr executable in next two months. Given the technologically upgraded and efficient supply chain management processes implemented by the company, it has been able to eliminate major overhead expenses such as employee expenses and power expenses ensuring improved margins. Moreover, the company also takes orders from OEM companies who cater to better realizations, overall leading to improvement in the operating margins at 6.64 percent in FY21 against 3.92 percent in FY20 and 2.78 percent in FY19. Acuité believes that the scale of operations is expected to remain healthy in the near term owing to continuous inflow of order, optimal utilization levels and increased penetration in the export market.

- **Healthy capital structure supported by healthy debt protection metrics**

The financial risk profile is healthy marked by healthy leverage metrics of gearing and TOL/TNW, healthy debt protection metrics and improving networth levels. PGCPL's tangible net worth has improved and remained moderately sized at around Rs. 51 Cr as on March 31, 2021 against Rs. 32 Cr in previous year. The networth levels have improved due to improving scale of operations and improving operating margins, which has resulted in improved accretion to reserves over the last three years through FY2021. Though the revenues of the company are expected to remain in the range of Rs. 600 Cr - Rs. 800 Cr over the medium term, the operating margins are likely to lead to higher accretion to reserves. Acuité expects the networth to improve and remain healthy in the range of Rs.81 Cr - Rs. 150 Cr over the medium term, while maintaining Rs. 15.50 Cr of interest free loans unsecured loans infused by promoters. The company has followed a rather conservative leverage policy in the past; the same is reflected through its peak gearing levels of 1.38 times as on March 31, 2019. The leverage levels have improved and stood healthy at around 1.1 times as on March 31, 2021. The gearing, however, is expected to improve subsequently in the absence of any debt funded capex plans over the medium term. The company, on account of improved profitability levels, has reported improved and healthy debt protection indicators of an interest coverage (ICR) of 11.66 times in FY2021 against 5.09 times in FY2020 and a debt service coverage ratio (DSCR) of more than unity over the last three years ended FY2021. Further, it also generated cash accruals in the range of Rs. 3 Cr - Rs. 23 Cr over the last three years ended FY2020. Acuité expects the financial risk profile to remain healthy over the medium term in the absence of any significantly debt-funded capital expenditure supported by improving margins to support it accretion to net worth and improve its debt protection metrics.

- **Efficiently managed working capital operations**

PGCPL's working capital operations are efficiently managed as observed from the Gross Current Asset (GCA) days of 70 days as on March 31, 2021 against 38 days in previous year. The rise in GCA levels in FY2021 was on account of increase in yearend inventory levels on receipt of large import consignment. The inventory days therefore rose to 35 days as on March 31, 2021 against 10 days in previous year. Further, the receivable cycle as on March 31, 2021 got stretched to 30 days against 18 days in previous year on account of payments due from export customer who avail a credit period of upto 90 days. Further, those receivables have now been cleared as on date. Given the improved cash accrual position in the company, the working capital facilities from bank was utilized judiciously with a 60% average utilization through 10 months ended July, 2021. Acuité believes that the company's efforts to maintain an efficiently managed working capital cycle shall remain a key rating sensitivity.

Weaknesses

- **Susceptibility of operations to fluctuations in steel prices**

The operations of players like PGCPL are susceptible to demand scenario of steel products along with fluctuation in steel prices in the global and domestic market. Intervention by the government in the form of minimum import price/ countervailing duties have impacted the margins of the steel importing companies. Sudden spike in steel prices or sluggish demand generally has a significant impact on the operations of players like PGCPL. Acuité believes that PGCPL's operations will be susceptible to fluctuation in steel prices and changes in the regulatory environment.

Rating Sensitivities

- Stretch in working capital operations leading to liquidity concerns
- Any deviation in the expected improvement of the operations and profitability levels
- Any unexpected increase in debt levels leading to deterioration of financial health indicators

Material Covenants

- TOL/ATNW (incl. USL); < 2x
- Current Ratio: >= 1.25x
- Debt/EBITDA: < 2.5x

Liquidity: Strong

PGCPL's liquidity position is assessed at strong marked by healthy generation of net cash accruals against its maturing debt obligations, judicious utilization of working capital facilities while maintaining a healthy current ratio and moderate level of unencumbered cash and bank balance. The company has generated cash accruals in the range of Rs. 3 Cr to Rs. 23 Cr during last three years ending FY2021 as against its long-term debt obligations of Rs. 5 Cr to Rs.7 Cr for the same period. Further, the debt-obligations, in the near term are reduced to nil on account of pre-payment of term loan debt in FY21, against which the expected cash accruals are expected in the range of Rs. 33 Cr to Rs. 51 Cr leaving aside strong cushion in the liquidity buffers for incremental operational usages. Additionally, the group has been judiciously utilizing the working capital bank limits at an average of 60 percent, for a period of 10 months ended July, 2021. Further, the company's working capital operations are efficiently managed as evident from Gross Current Asset (GCA) of 70 days as on March 31, 2021 as compared to 38 days as on March 31, 2020 influenced by the year-end inventory unloading. The current ratio stood at 1.85 times as on March 31, 2021. The company maintained unencumbered cash and bank balances of Rs. 0.48 Cr as on March 31 2021 against Rs. 0.07 Cr in previous year. Acuité believes that the liquidity position of the company is likely to remain strong over the near to medium term on account of healthy liquidity buffers for incremental operational purposes given the prudent utilization of funds and nil repayable obligations.

Outlook: Stable

Acuité believes that PGCPL will continue to benefit over the medium term from the industry experience of its management. The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in PGCPL's operating income or profitability while continuing to maintain efficiency in its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure and debt protection metrics or any stretch in the working capital operations leading to liquidity constraints.

About the Rated Entity – Key Financials

| | Unit | FY21 (Actual) | FY20 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 493.91 | 396.70 |
| PAT | Rs. Cr. | 20.06 | 7.25 |
| PAT Margin | (%) | 4.06 | 1.83 |
| Total Debt/Tangible Net Worth | Times | 1.10 | 0.88 |
| PBDIT/Interest | Times | 11.66 | 5.09 |

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

None

Any other information

None

Applicable Criteria

- Financial Ratios and Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument/Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|--------------|-------------------------------|-----------|-----------------|---------------------------------|
| 24-Sep-2021 | Cash Credit | Long Term | 23.40 | ACUITE BBB+ / Stable (Upgraded) |
| | Packing Credit | Long Term | 15.00 | ACUITE BBB+ / Stable (Upgraded) |
| | Proposed Bank Facility | Long Term | 0.60 | ACUITE BBB+ / Stable (Upgraded) |
| 28-Oct-2020 | Cash Credit | Long Term | 23.40 | ACUITE BBB/Stable (Upgrade) |
| | Term Loan | Long Term | 14.00 | ACUITE BBB (Withdrawn) |
| | Proposed | Long Term | 0.60 | ACUITE BBB/Stable (Upgrade) |
| | Packing Credit | Long Term | 15.00 | ACUITE BBB/Stable (Upgrade) |
| 17-July-2019 | Cash Credit | Long Term | 23.40 | ACUITE BBB-/Stable (Assigned) |
| | Term Loan | Long Term | 14.00 | ACUITE BBB-/Stable (Assigned) |
| | Proposed | Long Term | 12.60 | ACUITE BBB-/Stable (Assigned) |

*Annexure – Details of instruments rated

| Lender Name | Name of Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|----------------|--------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| ICICI Bank Ltd | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 35.00 (Revised from 23.40) | ACUITE BBB+/Stable (Reaffirmed) |
| HDFC Bank Ltd | Packing Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 (Revised from 15.00) | ACUITE BBB+/Stable (Reaffirmed) |
| Not Applicable | Proposed | Not Applicable | Not Applicable | Not Applicable | 0.60 | ACUITE BBB+ (Withdrawn) |

Contacts

| Analytical | Rating Desk |
|--|--|
| Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Aditya Sahu Analyst - Rating Operations Tel: 022-49294055 sagarikaa.mukherjee@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research:

Acuité Ratings & Research 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 8,850 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 KanjurMarg, 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.