

Press Release

G M Re Rollers

October 16, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 30.00 crore bank facilities G M Re Rollers (GMRR). The outlook is '**Stable**'.

The rating reaffirmation draws comfort from the established track record of operations and experienced management and its established relationship with clientele is expected stability in its revenues over the medium term. The ratings, however, remain constrained by GMRR's moderate and stagnant scale of operations, below average financial profile, and high working capital intensity. Moreover, the revenue and profitability are likely to decline in FY2021 due to subdued demand outlook in the Iron and steel industry and the imposition of lockdown following the Covid-19 pandemic.

G M Re Rollers was established as a partnership firm in 1986 by partners Mr. Manmohan Agarwal and his wife Mrs. Lalitha Devi Agarwal. The firm is engaged in manufacturing as well as trading of iron and steel products. The firm, its manufacturing facility located at Chennai (Tamilnadu) with a production capacity of 1200 tons per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations**

The promoters of GMRR have been associated with the Iron and Steel industry since 1986. The firm is managed by Mr. Manmohan Agarwal, who has more than four decades of experience in the steel industry. Partners' longstanding presence and relationship with the stakeholders supported in stable business risk profile with revenues of about Rs.94.95 Cr in FY2020 (Provisional) as against Rs.92.09 Cr in crores in FY2019. Acuité believes that the industry experience and domain knowledge of the management is expected to support in improving its business risk profile over the medium term.

Weaknesses

- **Below-average financial risk profile**

The firm's financial risk profile is below-average financial risk profile marked by high gearing and total outside liabilities to tangible networth (TOL/TNW) and weak debt protection metrics. Its gearing and TOL/TNW are high at 4.32 times and 4.71 times as on March 31, 2020 (provisional) vis-à-vis 3.84 times and 4.60 times as on March 31, 2019. Net worth is modest at Rs. 9.91Cr as on March 31, 2020 (provisional). Its debt protection metrics are weak marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are weak at 1.09 times and 0.01 times in FY2020 (provisional) and as well as 1.09 times and 0.01 times in FY2019. The GMRR generated cash accruals of Rs.0.25 to 0.27 crore during the last three years through 2018-20, while its maturing debt obligations were nil during the same period. The firm's cash accruals are expected at around Rs.0.25 crores to Rs.0.30 crore against no repayment obligations which gives moderate cushion on its liquidity.

Acuité believes that with modest accruals and no repayment obligations, the financial risk profile is expected to improve marginally over the medium term.

• Working capital intensive operations

The firm's operations are working capital intensive as evident from its Gross Current Assets (GCA) of 204 days as on March 31, 2020 (Provisional) as against 198 days as on March 31, 2019. This is owing to high working capital intensity driven by the high debtor and moderate inventory levels. GMRR reported elongated debtor days of 150-177 and it maintains a moderate inventory of about 5-10 days during the last three years ended with March 31, 2020 (Provisional). This has led to high utilization of its working capital limits about 99-100 percent for the past 6 months ended with August 2020. Its creditor days stood at 6- 29 days during the last three years ended with March 31, 2020 (Provisional). Acuité believes that firm's business operations are majorly on trading nature with diversified clientele, the working capital operations are expected to be at similar levels over the medium term.

Liquidity Position: Stretched

GMRR liquidity profile is stretched as reflected by highly utilised working capital limits and low cash accruals as against nil repayment obligations. The GMRR generated cash accruals of Rs.0.25 to 0.27 crore during the last three years through 2018-20, while its maturing debt obligations were nil during the same period. The firm's cash accruals are expected at around Rs.0.25 crores to Rs.0.30 crore against no repayment obligations which gives moderate cushion on its liquidity. However, liquidity is constrained by its working capital limits which are highly utilised at about 99 per cent for the last six months through August 2020. The current ratio stood comfortable at 1.60 times March 31, 2020 (provisional). Acuité believes that though cash accruals are low and managing the working capital intensive operations is a key rating sensitivity factor amidst growing scale of operations.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely.
- Further stretch in the working capital cycle

Outlook: Stable

Acuité believes that G M Re Rollers will maintain 'Stable' outlook in the medium term on account of along track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the firm registers higher than expected growth in its revenues and profitability and improving its capital structure. Conversely, the outlook may be revised to negative in case of any further stretch in its working capital management or larger-than-expected debt-funded capex or any significant withdrawal of capital leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	94.95	92.09
PAT	Rs. Cr.	0.25	0.24
PAT Margin	(%)	0.27	0.26
Total Debt/Tangible Net Worth	Times	4.12	3.84
PBDIT/Interest	Times	1.09	1.09

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
06-Aug-2020	Cash Credit	Long Term	28.00	ACUITE BB- (Indicative)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Indicative)
06-Aug-2019	Letter of Credit	Short Term	2.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	28.00	ACUITE BB- / Stable (Assigned)

***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	28.00	ACUITE BB- / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@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 8,375 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, Acuité's rating scale and its definitions.