Press Release

Prabhat Global Colourcoated Private Limited

March 20, 2023

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	60.00	ACUITE BBB+ | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	60.00	-	-

Erratum: In the original PR dated January 23, 2023, there were errors in plant name and the bank limit utilization which has been rectified in the current version and the total capacity post capex completion is stated in this PR.

Rating Rationale

Acuite has reaffirmed its long-term rating of **'ACUITE BBB+ (read as ACUITE Triple B plus)'** on the Rs.60.00 crore bank facilities of Prabhat Global Colour Coated Private limited (PGCPL). The outlook is '**Stable**'.

Rationale for reaffirmation

The rating reaffirmation takes into account the improvement in operational and financial risk profile of the company in FY2022 albeit moderation in the current year. The operating income of the company improved to Rs.774.91 crore in FY2022 registering a growth of ~57 percent YoY compared to revenue of Rs.493.91 crore in FY2021. The growth in the revenue is primarily on account of higher realisations as steel prices soared during that period. The company's operating income stood at Rs.331.26 crore in 8MFY23 and is expected to close the year in the range of Rs.580-620 Cr. The operating profit margin which improved to 8.63% in FY2022 from 6.64% in FY2021, detriorated significantly in 8MFY23. The moderation in operating performance in the current year is primarily due to correction in steel prices and imposition of export duty on steel by the government in Q1FY23. The duty stands invoked November, 2023 onwards, this is expected to bring positive traction in profitability levels of the Company.The financial risk profile of the Company continues to remain healthy marked by low gearing, healthy debt protection metrics and improving net worth levels. However, the rating remains constrained by the execution risk pertaining to upcoming capital expenditure for backward integration.

Going forward, PGCPL's ability to improve its scale of operations and profitability margins while maintaining its capital structure and timely completion of planned capex without cost overruns will remain key rating monitorable

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 October, 2018 and the manufacturing unit is situated in Khopoli with an installed capacity of 100000 MT/annum.

Analytical Approach

Acuite has considered the standalone business risk profile and financial risk profile of PGCPL to arrive at its rating.

Key Rating Drivers

Strengths

Extensive experience of promoters and 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 thirty years in the steel industry, prior to starting PGCPL in 2017, he was engaged in trading of all types of steel (except for scrap) and also ran a rolling mill unit. 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 of the promoters has enabled the company to forge healthy relationships with reputed companies like Isopan Est. IRL, Tata Steel Ltd, Arcelormittal Nipponsteel India Ltd among others, majority of whom have been associated with PGCPL since its incorporation

The operating income of the company improved to Rs.774.91 crore in FY2022 registering a growth of ~57 percent YoY compared to revenue of Rs.493.91 crore in FY2021. The growth in revenue is primarily on account of higher realisations as steel prices soared during that period. The company's operating income stood at Rs.331.26 crore in 8MFY23 and is expected to close the year in the range of Rs.580-620 Cr. The operating profit margin which improved to 8.63% in FY2022 from 6.64% in FY2021, detiorated significantly in 8MFY23. The moderation in operating performance during the year is primarily due to correction in steel prices and imposition of export duty on steel by the government in Q1FY23. The duty stands invoked November, 2023 onwards, this is expected to bring positive traction in profitability levels of the Company.

Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers and suppliers. However, company's operating performance will be affected for the medium term on account the volatility prevailing in the steel industry.

Healthy capital structure supported by healthy debt protection metrics

The financial risk profile is healthy marked by low gearing, healthy debt protection metrics and improving net worth levels. The tangible net worth improved to Rs.95.06 crore as on 31 March, 2022 as against Rs.51.27 crore as on 31 March, 2021. The improvement is on account of increase in scale of operations and improving operating margins, which has resulted in improved accretion to reserves in FY2022. The gearing level of the company reduced to 0.17 times as on 31 March, 2022 as against 1.10 times as on 31 March, 2021. The total debt outstanding of Rs.15.96 crore is the working capital borrowings as on 31 March, 2022. The coverage ratios of the company remained comfortable with Interest Coverage Ratio (ICR) of 17.58 times for FY2022 against 11.66 times for FY2021. Also, the Debt Service Coverage Ratio (DSCR) stood at 5.75 times for FY2022 against 1.94 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company is lower and stood at 0.26 times as on March 31, 2022 against 1.25 times as on March 31, 2021. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 2.94 times for FY2022 as against 0.41 times for FY2021.

Efficiently managed working capital operations

The operations of the company are managed efficiently marked by low GCA days of 40 days for FY2022 as against 70 days for FY2021. The low GCA days is majorly on account of low inventory levels of 20 days for FY2022 compared against 35 days for FY2021. The debtor days also remained low at 2 days for FY2022 against 30 days for FY2021. The creditor days of the company stood at 4 days for FY2022 as against 6 days for FY2021. The average utilization of the working capital limits of the company remained on the lower side of ~4.33 percent in last eleven months ended as on November' 2022.

Weaknesses

Exposure of risks associated with planned capital expenditure
The company is planning a backward integration project for setting up three different plants including a pickling plant, cold rolling plant and galvanising plant. Currently, the company procures galvanised coils and has a colour coating plant of 100000 MT/annum. It plans to install the three new plants resulting into total capacity of 150000/MT annum. The project is expected to start by February 2023 and is expected to be completed by June 2024. The total cost of the project is Rs.130 crore out of which, Rs. 60 crore is expected to be funded by bank loans, Rs. 50 crore through internal accruals and remaining Rs. 20 crore will be raised through promoter's contribution in the form of unsecured loans. The debt tie up for the project is pending.
Acuité believes timely project implementation while sustaining the financial risk profile without any time and cost overruns remains a key sensitivity factor.

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

- Timely Completion of capex without cost overruns
- Ability to improve its scale of operations and profitability margins while maintaining its capital structure

Material covenants
None

Liquidity Position
Adequate

PGCPL has adequate liquidity position marked by adequate net cash accruals against no maturing debt obligations. The company generated cash accruals of Rs.46.88 crore in FY2022 compared against no maturing debt obligations. Going ahead, the cash accruals of the company are estimated to remain around Rs.28.33-29.15 crore during 2023-24 period against no significant maturing debt obligations. The GCA days stood at 40 days as on March 31, 2022 and the average utilization of the working capital limits of the company remained on the lower side of ~4.33 percent in last eleven months ended as on November' 2022. Furthermore, the company maintains unencumbered cash and bank balances of Rs.13.31 crore as on March 31, 2022 and the current ratio also stood at 3.40 times as on March 31,2022.

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 time or cost over runs in its planned capex.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	774.91	493.91
PAT	Rs. Cr.	44.19	20.06
PAT Margin	(%)	5.70	4.06
Total Debt/Tangible Net Worth	Times	0.17	1.10
PBDIT/Interest	Times	17.58	11.66

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria
• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Entities In Manufacturing Sector:- https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Jan 2023	Cash Credit	Long Term	35.00	ACUITE BBB+ | Stable (Reaffirmed)
	Packing Credit	Long Term	25.00	ACUITE BBB+ | Stable (Reaffirmed)
30 Oct 2021	Packing Credit	Long Term	25.00	ACUITE BBB+ | Stable (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB+ | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.60	ACUITE BBB+ (Withdrawn)
24 Sep 2021	Cash Credit	Long Term	23.40	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB | Stable)
	Packing Credit	Long Term	15.00	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB | Stable)
	Proposed Bank Facility	Long Term	0.60	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB | Stable)
28 Oct 2020	Packing Credit	Long Term	15.00	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
	Proposed Bank Facility	Long Term	0.60	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
	Term Loan	Long Term	14.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	23.40	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BBB+ | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB+ | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.