Punjab General Industries Private Limited (PGIPL)

April 21, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	**12.50**	**SMERA B+/Stable (Assigned)**
Bill Discounting	**0.75***	**SMERA A4 (Assigned)**
Inland/Foreign Letter of Credit	**0.50#**	**SMERA A4 (Assigned)**
Bank Guarantee	**0.50#**	**SMERA A4 (Assigned)**

*Fully interchangeable with Bills Negotiation (under Letter of Credit)
#Fully interchangeable between Letter of Credit and Bank Guarantee

SMERA has assigned ratings of **'SMERA B+' (read as SMERA single B plus)** and **'SMERA A4' (read as SMERA A four)** to the Rs.14.25 crore bank facilities of Punjab General Industries Private Limited (PGIPL). The outlook is **'Stable'**. The ratings are constrained by the company's uneven revenue stream. The ratings are also constrained by the susceptibility of the company's profit margins to raw material price volatility and rising power costs. The ratings factor in the risks related to the company's working capital-intensive operations in a highly competitive segment of the iron and steel industry. However, the ratings are supported by the company's integrated operations, healthy financial risk profile and experienced management.

PGIPL (established in 1971) is a Haryana-based company engaged in manufacturing of ingots, billets, rolled steel products and un-machined castings. PGIPL's revenues have grown at a muted compound annual growth rate (CAGR) of 8.83 per cent during FY2008–09 (refers to financial year, April 01 to March 31) to FY2012–13. The company's revenues declined by ~6 per cent in FY2012–13 on account of reduced offtake of rolled steel products.

PGIPL's profit margins are highly susceptible to fluctuations in prices of metal scrap. The company's profitability is also affected by rising power costs. PGIPL's power cost as a portion of total operating income increased from 15.54 per cent in FY2011–12 to 21.75 per cent in FY2012–13. The company thus reported operating loss (before interest and tax) of Rs.0.55 crore in FY2012–13. PGIPL has recently set up a 66 kV substation to reduce power costs and increase power load from 5,000 kVA to 6,500 kVA. The substation has been operational since December 2013. PGIPL's net profit margins have remained subdued (in the range of 0.5 per cent to 0.7 per cent) on account of high interest cost and increase in depreciation post capacity expansion. The company's net profit of Rs.0.48 crore (in FY2012–13) is largely supported by non-operating income of Rs.3.93 crore, which mainly arises from profit on sale of factory unit (II).

PGIPL faces intense competition from several players in the iron and steel industry. The company's working capital cycle stretched from 78 days in FY2010–11 to 90 days in FY2012–13. However, PGIPL's average utilisation of working capital limit has been minimal during the last six months as the company's working capital requirements were largely supported by cash from sale of factory unit (II).

PGIPL has an integrated manufacturing facility. The company uses ~79 per cent of ingots and billets for captive consumption.

PGIPL's financial profile has improved significantly in FY2012–13. The company's gearing (debt-to-equity ratio) reduced from 3.59 times as on March 31, 2012 to 1.43 times as on March 31, 2013 on account of increase in net worth due to capital gain on sale of factory premises. PGIPL's total debt of Rs.17.92 crore (as on March 31, 2013) includes term loan of Rs.3.48 crore (repaid in May 2013), unsecured loans of Rs.9.72 crore (bearing interest of 15 per cent per annum) and short term working capital facilities of Rs.4.63 crore. The company's interest coverage ratio is moderate at 1.60 times in FY2012–13.

PGIPL benefits from its experienced management. The directors of the company have around three decades of experience in the iron and steel industry.

Outlook: Stable

SMERA believes PGIPL will continue to benefit over the medium term from its established presence in the iron and steel industry. The company is likely to maintain its financial risk profile at a moderate level in the absence of debt-funded capex plans. The outlook may be revised to 'Positive' in case the company registers substantial improvement in its scale of operations while achieving comfortable operating profit margin. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve scalability amidst intensifying competition in its area of operations, or in case of deterioration in the company's profitability on account of rising costs.

About the company

PGIPL was established as a partnership firm in 1971 and converted into a private limited company in 1999 with Mr. Ramesh Chand Aggarwal, Mr. Anoop Kumar Jindal, Mr. Sunil Kumar Jindal, Mr. Faquir Chand Gupta and Mr. Prakash Chand Jindal as directors. PGIPL is engaged in manufacturing of ingots, billets, rolled products and un-machined castings. The company has a manufacturing unit in Haryana.

For FY2012–13, PGIPL reported net profit of Rs.0.48 crore on total income of Rs.71.81 crore, as compared with net profit of Rs.0.53 crore on total income of Rs.77.15 crore for FY2011–12. Further, the company registered operating profit (before tax) of Rs.0.42 crore (provisional) on revenues of Rs.74.29 crore (provisional) during April 2013 to December 2013. PGIPL's net worth stood at Rs.12.53 crore as on March 31, 2013, as compared with Rs.5.92 crore a year earlier.

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