December 17, 2013

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	**15.00**	**SMERA B-/Stable (Assigned)**
Term Loan	**5.00**	**SMERA B-/Stable (Assigned)**

SMERA has assigned a rating of **'SMERA B-' (read as SMERA B minus)** to the Rs.20.00 crore long-term bank facilities of G D Metsteel Pvt. Ltd. (GDMS). The outlook is **'Stable'.** The rating is constrained by the company's modest scale of operations, working capital-intensive business and weak financial risk profile. The rating is also constrained by the relatively new management. However, the ratings derive comfort from the company's strong brand and significant improvement in operations in the current financial year. .

GDMS, incorporated in 1996, is a Pune-based company engaged in manufacturing of mild steel angles, channels, beams, round bars and flats. The company has a modest scale of operations with revenues of Rs.64.51 crore in FY2012–13 (refers to financial year, April 01 to March 31). GDMS's operations are working capital-intensive with gross current assets of around 140 days in FY2012–13 The company's working capital cycle stretched from 66 days in FY2012 to 140 days in FY2013. GDMS maintains high inventory (by stocking a large range of products) to ensure better service to its customers.

GDMS has a weak financial risk profile marked by highly leveraged capital structure, low tangible net worth and weak debt protection metrics. The company's debt to tangible net worth ratio (after adjusting for revaluation reserves) increased from 2.5 times as on March 31, 2012 to 8.7 times as on March 31, 2013. GDMS's interest coverage ratio is weak at 0.35 times in FY2012–13. However, the company's interest coverage ratio is expected to improve in FY2013–14 due to expected improvement in profitability in FY2014.

GDMS was promoted by the Malhotra family. In FY2012–13, the company was taken over by Mr. Khatri and Mr. Solanki. The Khatri also owns Sohn Steel Pvt. Ltd. (SSPL) — a Pune based company engaged in manufacturing of mild steel ingots and billets. SSPL has been historically an important supplier to GDMS. Thus the new management of GDMS has short track record in operating a steel re-rolling mill for manufacturing of long products like Angles, Channels and beams etc.

However, with 2013-14 being the first full year of operations under the new management, there have been significant improvements in the company's operating performance during the half year 2013-14, ended September 30. The company registered net sales of Rs34.74 crore during April 2013 to ,. The company's operating margins have also increased significantly to around 4.7% in 2013-14 H1, from 0.9% during 2012-13.

GDMS is poised to benefit from its strong local brand name (Malhotra Steels) and long-standing customer relationships, which have been developed over the past two decades.

Outlook: Stable

SMERA believes that GDMS's business risk profile will continue to benefit from its established brand name. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues and cash flows while maintaining a comfortable working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a significant stretch in the company's working capital cycle or in case of deterioration in the company's debt protection metrics.

About the company

GDMS, incorporated in 1996, is a -based company engaged in manufacturing of mild steel angles, channels, beams, round bars, and flats. GDMS has a manufacturing unit in Daund, Pune (Maharashtra) with a total installed capacity of 90,000 MTPA.

For FY2012–13, GDMS reported net loss of Rs.0.96 crore on net sales of Rs.64.51 crore as compared with PAT of Rs.0.23 crore on net sales of Rs.68.73 crore for FY2011–12.

Contact List

Media/ Business Development	Analytical Contacts	Rating Desk
Sanjay Kher Head Sales - Corporate Ratings Tel : +91 22 6714 1193 Cell : +91 98191 36541 Email : sanjay.kher@smera.in Web: www.smera.in	Umesh Nihalani Head, Corporate Ratings Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in