

June 02, 2014

Facility	Amount (Rs. Crore)	Rating
Letter of Credit	32.70*	SMERA A4 (Assigned)

**Includes cash credit as a sublimit to the extent of Rs.18.50 crore*

SMERA has assigned a rating of '**SMERA A4' (read as SMERA A four)** to the abovementioned bank facility of Giriraj Iron Limited (GIL). The rating is constrained by the company's low profit margins, working capital-intensive operations, declining revenues and high leverage amidst intense competition prevalent in the steel industry. The rating is also constrained by the susceptibility of the company's profit margins to volatility in prices of steel. However, the rating is supported by the company's established track record of operations and experienced management.

GIL is an Ahmedabad-based company engaged in trading of hot rolled (HR) steel coils since the last three decades. GIL's operating profit margin is low at 2.88 per cent in FY2012-13 (refers to financial year, April 01 to March 31). The company's operations are working capital-intensive, as reflected in receivables period of 69 days and inventory holding period 31 days in FY2012-13. GIL maintains high level of inventory as ~80 per cent of the company's orders are stock and trade in nature. GIL's revenues declined from Rs.399.15 crore in FY2011-12 to Rs.218.17 crore in FY2012-13 on account of procurement issues arising from switching to domestic sourcing of HR coils. The company's weak financial risk profile is marked by high leverage of 2.36 times as on March 31, 2013 and moderate interest coverage ratio of 1.20 times in FY2012-13. GIL operates in an intensely competitive segment of the steel industry. The company's profit margins are susceptible to volatility in prices of steel.

GIL benefits from its experienced management. The promoters of the company have around 30 years of experience in the steel industry. GIL caters to ~800 distributors and dealers across India.

About the company

GIL is an Ahmedabad-based company engaged in trading of hot rolled (HR) steel coils since the last three decades. The company is currently managed by Mr. Bhadresh V. Shah, Mr. Shailesh V. Shah, Mr. Maitray Shah and Mr. Utkarsh Shah. GIL sources material from domestic steel manufacturers. Previously, the company imported HR coils; however, due to recent volatility in exchange rate, GIL shifted focus on domestic procurement. The company has two branch offices in Mumbai and Baroda and one warehouse in Gujarat.

For FY2012-13, GIL reported profit after tax (PAT) of Rs.1.22 crore on operating income of Rs.218.22 crore, as compared with PAT of Rs.1.98 crore on operating income of Rs.399.28 crore for FY2011-12. The company's net worth stood at Rs.7.20 crore as on March 31, 2013.

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SMERA RATINGS LIMITED

Giriraj Iron Limited (GIL)

Rating Rationale

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