

Press Release

GIRIRAJ IRON LIMITED

April 04, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 32.70 Cr.
Short Term Rating	SMERA A3+

* Refer Annexure for details

Rating Rationale

SMERA has assigned short term rating of '**SMERA A3+**' (**read as SMERA A three plus**) on the Rs. 32.70 crore bank facilities of **GIRIRAJ IRON LIMITED**.

Giriraj Iron Limited (GIL) and Giriraj Exim Private Limited (GEPL) are together referred to as Giriraj group. Giriraj Exim Private Limited was formed in 2008 as an importer of Mild Steel (MS) Sheets. Giriraj Iron Limited was established in 2011 as a trading company in a variety of products including H R Coil, H R Sheet, M S Coil, M S Plates, T M T Bars, etc. Giriraj group is promoted by the Shah Family and the head office is located in Ahmedabad, Gujarat with business operations spread across Maharashtra and Gujarat. The Shah family is in this business since 1946. The directors of the company, Mr. Bhadresh Shah and Mr. Shailesh Shah have 30 years of experience in the business of Steel trading.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Mr. Vadilal Shah, father of Mr. Bhadresh Shah had started the business of trading in Ferrous Metals from the year 1946. Mr. Bhadresh Shah started the business of trading in non-ferrous metals in 1985 as a proprietary concern, Gokul Corporation. After which, he and his brother, Mr. Shailesh V. Shah, formed a partnership firm under the name M/s Giriraj Steel. This firm was converted into Giriraj Iron Limited in the year 2011. Currently, all the directors look after the day to day business activities. SMERA believes that owing to the long track record of operations, it has helped the group establish and maintain long standing relations with customers and suppliers.

- **Diversified clientele and product portfolio with distributorship of JSW and SAIL**

Giriraj group operates in the domestic market and has established a diversified client network over the years. Giriraj group does not have any customer concentration risk. Giriraj group's product portfolio comprises of various products including H R Coil, H R Sheet, M S Coil, M S Plates, and T M T Bars. GEPL has a channel financing facility from JSW Ltd and SAIL for the procurement of steel products. This provides continuous and uninterrupted supply of steel to the group.

- **Steady growth in operations**

The group has been showing a steady growth in revenues over the past few years. The revenues have increased from Rs.458.08 crore in FY16 to Rs.702.15 crore in FY17. The group has registered a compounded annual growth rate of 23% on a year on year (Y-o-Y) basis since FY15.

Weaknesses

- **Susceptibility of revenues to cyclicalities of the steel industry**

Prospects of the steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which

are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, the steel industry may witness a decline in demand. Since, the group is engaged in trading of steel related products, its revenues are directly related to the industry ups and downs of steel industry

• Fragmented and competitive nature of industry

Steel trading business is characterized by highly competitive, fragmented and cyclical business which is strongly correlated to economic cycles; hence earning is low. Furthermore, the metal trading industry has very low entry barriers and there is large number of unorganized players in the industry resulting in large competition.

• Working capital intensive nature of operations

Due to dependency on working capital borrowings for the day to day operations, average working capital utilization remains as high as 95%. However, the operating cycle has improved from 87 days during FY16 to 63 days in FY17, primarily due to improvement in inventory holding period from 61 days in FY16 to 40 days in FY17.

Analytical Approach

For the purpose of ratings, SMERA has taken a combined view of Giriraj Exim Private Limited (GEPL) and Giriraj Iron Limited (GIL) as both the companies have a common management, are in the same line of business. Both the entities share common infrastructure setup to run the business. Together these companies are referred to as the Giriraj Group.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	702.15	458.08	380.28
EBITDA	Rs. Cr.	18.09	14.28	10.00
PAT	Rs. Cr.	3.51	2.24	1.96
EBITDA Margin	(%)	2.58	3.12	2.63
PAT Margin	(%)	0.50	0.49	0.51
ROCE	(%)	12.56	12.07	21.16
Total Debt/Tangible Net Worth	Times	2.69	3.69	2.67
PBDIT/Interest	Times	1.42	1.30	1.38
Total Debt/PBDIT	Times	5.26	7.63	6.76
Gross Current Assets (Days)	Days	90	147	116

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.70	SMERA A3+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA A3+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3+

Letter of Credit of Rs. 5.70 crore with a sublimit of Cash Credit facility of Rs.3.50 Crore.

Letter of Credit of Rs. 12.00 crore with a sublimit of Cash Credit facility of Rs.7.50 Crore.

Letter of Credit of Rs. 15.00 crore with a sublimit of Cash Credit facility of Rs.7.50 Crore.

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ABOUT SMERA

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