



Press Release

Giriraj Iron Limited [GIL] (Additional Limit)

July 30, 2020

Rating

| Sr. No. | Instrument/ Facility | Amount (INR Crore) | Rating Assigned | Rating Action |
|---------|----------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------|-----------------------|
| 1 | <u>Long Term/ Short Term Fund based/ Non-Fund based facilities</u> Letter of Credit | 20.00* (enhanced from 15.00) | IVR BBB-/ Negative Outlook/ IVR A3 [IVR Triple B Minus with Negative Outlook/ IVR A Three] | Reaffirmed & Assigned |
| 2 | <u>Long Term Fund based facilities</u> Cash Credit | 15.00 | IVR BBB-/ Negative Outlook [IVR Triple B Minus with Negative Outlook] | Assigned |
| | Total | 35.00 | | |

* Cash Credit of INR 20 Crore is a sub-limit of Letter of Credit.

Details of facilities are in Annexure 1

Rating Rationale

The rating assigned to the bank facilities of Giriraj Iron Limited (GIL) derive strength from experienced promoters, diversified product portfolio and clientele. The rating is however constrained by declining revenue with thin profitability margin, moderate debt protection metrics, working capital intensive operations and competitive nature of industry.

The Outlook is Negative on account of slowdown arising out of COVID-19 crisis.

Key Rating Sensitivities:

➤ **Upward Rating Factor:**

Substantial & sustained improvement in the revenue & EBITDA margin while improving the debt protection metrics

➤ **Downward Rating Factor:**

Any further decline in revenue and/or EBITDA margin leading to decline in debt protection metrics



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Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters

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 1947 and the promoters of the group - Mr. Bhadresh Shah and Mr. Shailesh Shah, have around three decades of experience in the similar line of business.

Diversified product portfolio

Giriraj group's product portfolio comprises of various products including HR coil, HR sheet, MS coil, MS plates, TMT Bars.

Diversified clientele

They are the Authorized Distributors for 'JSW Steel Limited' & RINL steel in Gujarat. They are the Authorized Dealers for 'Steel Authority of India-SAIL' & ESSAR steel in Gujarat. They have dealers/ retailer network of around 1300 in the state of Gujarat & Maharashtra.

The top 10 customers in both the Companies in FY20 contributed 14%-16% of the total sales, leading to well diversified client base.

Key Rating Weaknesses

Declining revenue with thin profitability margin

Over a period of last 3 years (FY17 to FY19), the Group's total income from operations remained in the range of INR 600-725 Crore. However, it declined to INR 544 Crore in FY20. The decline was majorly due to reduced volume coupled with lower realization arising out of general slowdown. The profitability remains thin due to inherent nature of steel trading business.

Moderate debt protection parameters

The overall gearing ratio of the Company although high, it improved to 2.23x as at FY20 from 3.20x as at FY19. The Total outside liabilities to Tangible Net Worth of the Company



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also stood high at 3.11x as at FY20 & 5.20x as at FY19. The interest coverage ratio stood at 1.24x in FY20 & 1.13x in FY19.

Working Capital intensive operations

The operations of the Group are working capital intensive, the utilization of working capital limits remained high at 92-95% during the 12 months ended May 31, 2020 in both the Companies.

The Average Operating Cycle of the Company has increased to 72 days as at FY20 from 65 days as at FY19.

Competitive nature of industry

Steel trading business is characterized by highly competitive, fragmented and cyclical business, having a large number of unorganized players in the industry resulting in intense competition.

Analytical Approach & Applicable Criteria:

- Consolidated approach - Infomerics has considered the consolidated financial profiles of GIL and Giriraj Exim Private Limited (GEPL), together known as Giriraj Group, to arrive at the rating. The consolidation is on account of common management, similar line of business, and significant operational and financial linkages. Extent of Consolidation: Full.
- Rating methodology for trading companies
- Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Adequate

The group has been earning a moderately comfortable level of GCA for the last few years and the same is expected to increase further with an increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained high at 91-95% during the 12 months ended May 31, 2020.



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About the company

GIL was incorporated in 2011 with its registered office in Ahmedabad. The group is into trading of steel since past three decades.

Financials - Consolidated

| For the year ended / As on | INR in Crore | | |
|----------------------------|------------------------|------------------------|----------------------------|
| | 31-Mar-18 (Audited) | 31-Mar-19 (Audited) | 31-Mar-20 (Provisional) |
| Total Operating Income | 664.51 | 721.66 | 544.43 |
| EBITDA | 15.61 | 15.33 | 11.32 |
| PAT | 2.07 | 2.28 | 1.80 |
| Total Debt | 131.55 | 116.12 | 84.83 |
| Tangible Net Worth | 23.77 | 26.04 | 27.79 |
| EBITDA Margin (%) | 2.35 | 2.12 | 2.08 |
| PAT Margin (%) | 0.31 | 0.31 | 0.33 |
| Overall Gearing ratio (x) | 3.87 | 3.20 | 2.23 |

* Classification as per Infomerics' standards

Financials – Giriraj Iron Limited (GIL)

| For the year ended / As on | INR in Crore | | |
|----------------------------|------------------------|------------------------|----------------------------|
| | 31-Mar-18 (Audited) | 31-Mar-19 (Audited) | 31-Mar-20 (Provisional) |
| Total Operating Income | 285.51 | 307.31 | 118.37 |
| EBITDA | 7.06 | 6.22 | 3.28 |
| PAT | 0.89 | 0.90 | 0.40 |
| Total Debt | 63.16 | 47.24 | 26.30 |
| Tangible Net Worth | 12.43 | 13.32 | 13.73 |
| EBITDA Margin (%) | 2.47 | 2.02 | 2.77 |
| PAT Margin (%) | 0.31 | 0.29 | 0.34 |
| Overall Gearing ratio (x) | 5.08 | 3.55 | 1.92 |

* Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: Nil

Any other information: N.A.



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Rating History for last three years:

| Name of Instrument/ Facility | Current Rating (Year: 2020-21) | | | Rating History for the past 3 years | | |
|-----------------------------------------------------------------------|--------------------------------|---------------------------------|------------------------------------------|--------------------------------------------|----------------------------|----------------------------|
| | Type | Amount (INR Crore) | Rating | Rating assigned in 2020-21 (July 23, 2020) | Rating assigned in 2019-20 | Rating assigned in 2018-19 |
| Long Term/ Short Term Fund based/ Non Fund based facility | Letter of Credit | 20.00* (enhanced from 15.00) | IVR BBB-/ Negative Outlook/ IVR A3 | IVR BBB-/ Negative Outlook/ IVR A3 | -- | -- |
| Long Term Fund based facility | Cash Credit | 15.00 | IVR BBB-/ Negative Outlook | -- | -- | -- |
| | Total | 35.00 | | | | |

* Cash Credit of INR 20 Crore is a sub-limit of Letter of Credit.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

| Sr. No. | Name of Facility | Date of Issuance | Coupon Rate/IRR | Maturity Date | Size of Facility (INR Crore) | Rating Assigned/ Outlook |
|---------|----------------------------------------------------------------------------------------|------------------|-----------------|---------------|------------------------------|------------------------------------|
| 1 | <u>Long Term/ Short Term Fund based/ Non-Fund based facilities</u> Letter of Credit | -- | -- | -- | 20.00* | IVR BBB-/ Negative Outlook/ IVR A3 |
| 2 | <u>Long Term Fund based facilities</u> Cash Credit | -- | -- | -- | 15.00 | IVR BBB-/ Negative Outlook |
| | Total | | | | 35.00 | |

* Cash Credit of INR 20 Crore is a sub-limit of Letter of Credit.

Annexure 2: List of Companies considered for consolidation

| No. | Name of the entity | Extent of Consolidation |
|-----|-------------------------------------|-------------------------|
| 1 | Giriraj Exim Private Limited (GEPL) | Full |
| 2 | Giriraj Iron Limited (GIL) | Full |