



Press Release

GBR Metals Private Limited

December 20, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	57.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Assigned	Simple
Total	57.00 (Rupees Fifty Seven crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of GBR Metals Private Limited (GMPL) derives strength from its experienced promoters and substantial improvement in the scale of operations in FY22 over FY21. The rating strengths are, however, offset by the decline in EBITDA margin, moderate capital structure and debt protection metrics, geographical concentration risk, working capital intensive nature of business, exposure to cyclicity inherent in the steel industry, and presence in a highly competitive and fragmented industry..

Key Rating Sensitivities:

Upward Factors

- Significant and sustained improvement in operating income above 20% on a sustained basis
- Improvement in EBITDA margin above 7% and PAT margin above 3% on a sustained basis, leading to improvement in overall financial risk profile of the company
- Significant improvement in capital structure and debt protection parameters and liquidity position of the company.
- Geographic diversification in customer base

Downward Factors

- Any decline in revenue and profitability leading to deterioration in debt protection metrics
- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the company.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters The promoters of the company have four decades of experience in the iron & steel industry. Mr. Bansilal Rathi (grandfather of the current Promoter-Director, Mr. Venkatesh Rathi) was engaged in the manufacturing and trading of TMT bars since 1978. The business has been continuing over generations. The family continues to hold the overall management control of the company. Mr. Venkatesh Rathi also has around 17 years of experience in the industry. He is supported by a team of professionals and technically qualified management personnel.

Substantial improvement in the scale of operations in FY22

In FY22 the company's total operating income has improved significantly by around 82%, from Rs.254.27 crore in FY21 to Rs.464.74 crore in FY22, mainly on the back of good demand for M.S. billets and also TMT bars post covid restrictions. As informed by the management, the company has achieved total operating income of Rs.255.56 crore in H1FY23.

Key Rating Weaknesses

Decline in operating profit margin

The company's EBITDA margin has declined from 5.24% in FY20 to 3.76% in FY22, due to increase in raw material prices. However, PAT margin has remained stable at 1.41% in FY22 over 1.01% in FY21, and the GCA has improved from Rs.4.88 crore in FY21 to Rs.8.75 crore in FY22.

Moderate capital structure and debt protection metrics

The overall gearing ratio on tangible networth (including quasi equity) stood at 1.36x as on March 31, 2022 as compared to 1.55x as on March 31, 2021. TOL/TNW (including quasi equity) stood moderate at 2.62x as on March 31, 2022 as compared to 2.65x as on March 31, 2021. The interest coverage and total debt/ GCA ratios stood at 2.80x and 7.06x respectively in FY22 as against 1.83x and 11.37x respectively in FY21.

Geographical concentration risk

GMPL primarily has a presence across the state of Tamil Nadu. Hence, the company remains exposed to geographical concentration risk.



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Working capital intensive nature of the business

The operation of the company remained working capital intensive marked by its elongated average inventory period. Average inventory holding period was 34 days in FY22 against 55 days in FY21. Further, the company extends a credit upto 90 days to its customers and receives a credit of upto 7 days from its suppliers. Accordingly, the average debtor days stood at 41 days in FY22 against 62 days in FY21, while the average creditor days stood at 16 days in FY22 against 24 days in FY21. To support its high working capital requirements, the company depends on working capital borrowings from the banks. The average working capital utilisation of the fund based limits for the 12 months ended October 2022 remained high at around 80%.

Exposure to cyclicity inherent in the steel industry

The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, demand and supply in the global market, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale etc. Adverse volatility in steel prices will have an adverse effect on the firm's performance in view of its direct linkage to the fortunes of steel industry. However, the outlook for the steel industry in the short to medium term appears to be stable as the steel prices have hardened in the recent past, coupled with robust demand in the domestic market.

Presence in a highly competitive and fragmented industry

The spectrum of the steel industry in which GMPL operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating methodology for Manufacturing companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity: Stretched



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GMPL's liquidity position is stretched marked by moderate cash accruals of Rs.9.38 crore and modest cash balance of Rs.0.05 crore as on March 31, 2022. GMPL operates in a working capital-intensive industry, with the operating cycle of 58 days in FY22, funded largely by working capital borrowings. The average working capital utilisation of the fund based limits for the 12 months ended October 2022 remained high at around 80%. The company had also availed adhoc limits in some months during the period November 2021 to October 2022.

About the company

GMPL was incorporated in the year 2006. The company is engaged in manufacturing and trading of Thermo Mechanical Treatment (TMT) bars and Mild Steel billets (MS billets). GMPL is a closely held company with the entire stake held by the Rathie family and friends of the promoters. During the year 2006, the promoters acquired an existing iron and steel rolling plant at Peravallur near Chennai in order to venture into manufacturing of steel products and formed GMPL. Mr. Venkatesh Rathie represents the third generation of the Rathie family and is currently the director of GMPL.

Financials (Standalone):

(Rs. crore)		
For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	254.27	464.74
EBITDA	12.42	17.47
PAT	2.58	6.57
Total Debt	55.49	61.77
Adjusted Tangible Networth (including Quasi Equity)	35.83	45.27
Ratios		
EBITDA Margin (%)	4.88	3.76
PAT Margin (%)	1.01	1.41
Overall Gearing Ratio (including Quasi Equity) (x)	1.55	1.36

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CARE ratings vide its press release dated June 1, 2022 continued to classify the rating assigned to GMPL's bank facilities in 'Issuer Not Cooperating' category due to lack of adequate information.



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Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	45.00	IVR BB+/Stable	-	-	-
2.	Term Loan (BGECLS)	Long Term	8.00	IVR BB+/Stable	-	-	-
3.	Term Loan (BGECLS 1.0 Extension)	Long Term	4.00	IVR BB+/Stable	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	45.00	IVR BB+/ Stable
Term Loan	-	-	December 31, 2026	12.00	IVR BB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-GBR-Metals-dec22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.