



Press Release

Ganga Iron & Steel Trading Company Limited

August 1, 2023

Ratings

| Instrument Facility / | Amount (Rs. crore) | Ratings | Rating Action | Complexity Indicator |
|---------------------------|--|---|---------------|--------------------------------------|
| Long Term Bank Facilities | 57.95 | IVR BBB-/ Stable (IVR triple B minus with Stable outlook) | Assigned | Simple |
| Total | 57.95 (INR Fifty seven crore ninety five lakh only) | | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Ganga Iron & Steel Trading Company Limited (GISTCL) considers experienced promoters having long track record in the iron and steel industry along with established relationship with reputed suppliers and customers, steady increase in the scale of operations along with profitability. Moreover, the rating also considers moderate capital structure and moderate debt protection metrics. However, these rating strengths are constrained by thin profitability margin owing to trading nature of business, presence in a fragmented industry structure with intense competition, cyclicity inherent in metal industry which is expected to keep company's cash flows volatile.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Sustenance of the capital structure and further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Moderation in capital structure with overall gearing ratio to over 1x and/or moderation in interest coverage below 1.5x.



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- Any significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of operations and experienced promoters

Ganga Iron & Steel Trading Company was founded as a proprietorship firm in 1991 by Late Shri Omprakashji Agrawal in Nagpur. The directors of the company Mukesh Agarwal has nearly 3 decades of experience in the iron and steel trading followed by Mr. Kaushik Agarwal having more than 5 years of experience.

Established relationship with the suppliers and customers

GISTCL has developed a strong relationship with its suppliers, which ensures regular supply of traded steel at discounted price GISTCL is the Authorised Distributor for SAIL (Steel Authority of India), RINL (Rashtriya Ispat Nigam Limited), Jindal Steel & Power Limited JSW Steel Limited and ESSAR Steel (Stecol International Private Limited) providing comfort for sale under one roof and product diversity. The client list includes names likes KEC International Limited, Diffusion Engineering Limited etc. The reputed client base helps the company in reducing counterparty risk to a large extent.

Steady increase in the scale of operations along with profitability

The performance of the company has improved from the last few years as depicted by a topline of Rs.572.97 crore in FY23(prov.) increased from Rs.305.05 crores in FY21 (Rs.498.62 crore) depicting a CAGR of 37%. In Q1FY24 the company has reported a topline of nearly 130 crore. The margins remained thin primarily attributable to low value additive trading nature of the business. With the rise in the topline, EBIDTA margin increased to 1.81% in FY23(prov.) from 1.32% in FY22, this is due to the rise in the overhead expenses. PAT margin however, remaining thin though increased to 0.78% in FY23(prov.) from 0.34% in FY22 due to the reduction in the interest expenses with the repayment of the term loan.

Moderate capital structure and moderate debt protection metrics



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The financial risk profile of the company remained moderate marked by modest net worth base of Rs. 58.49 crore as on March 31, 2023(prov.). Total debt of the company is gradually reducing to Rs. 56.35 crore as on March 31, 2023(prov.), from Rs 65.41 crore as on March 31, 2022, due to repayment of the term loan. The overall gearing ratio of the company stood at 0.96x as on March 31, 2023(prov.). Total indebtedness of the firm as reflected by TOL/TNW stood at 1.27x as on March 31, 2023(prov.). The interest coverage ratio indicator stood adequate at 1.80 times in FY2023(prov.). The debt coverage indicators as depicted by Total Debt/EBITDA stood at 5.44 times in FY2023(prov.).

Key Rating Weaknesses

Thin profitability margin owing to trading nature of business

The profitability margin of the company remains thin due to trading nature of the business where the profit margins are susceptible to raw material prices and highly competitive nature of industry. Consequent to which operating profitability has largely trickled down to the net profit levels. The EBITDA margin stood low at 3.99% in FY2022 as against 4.58% in FY2021. The PAT margins also remained thin at 0.25% and 0.34% in FY21 and FY22 respectively.

Presence in a fragmented industry structure with intense competition

The company is engaged in trading business of various ferro-alloys which is highly competitive due to presence of many players owing to less product differentiation and low entry barriers. Presence of many players in the operating spectrum constrains the pricing flexibility of the firm to a large extent.

Cyclicality inherent in metal industry which is expected to keep company's cash flows volatile

The prospects of the alloy industry are strongly correlated and linked to the performance of the steel industry, since Ferro alloys are intermediaries for the steel industry. Demand for steel products is sensitive to trends of industries, such as 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



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their products. When downturns occur in these economies or sectors, steel industry generally witness steep decline in demand, leading to decrease in demand of ferro-alloys. The volatility in operating income takes into account lower sales realization of its traded products despite increase in sales volume on account of Covid 19 pandemic. The cyclicity is expected to remain going forward which might hamper the cash flows of the firm. However, the firm's opportunistic shift between imports and domestic procurement/sales depending upon the market conditions provides some comfort.

Working capital intensive nature of operation

The operations of the company are working capital intensive marked by its elongated average collection period of 30 days in FY23 (107 days in FY21) and inventory period of 27 days in FY23(prov.) maintained as per the inventory policy of the company to keep continuous flow of operations. The working capital intensity remained at 0.17x in FY23(prov.).

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

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

[Criteria for assigning rating outlook](#)

Liquidity –Adequate

The liquidity profile of the company is expected to be adequate driven by its healthy expected gross cash accruals ranging from~ Rs.5.00 crore to Rs.6.00 crore during FY24-FY26 which should be sufficient to service its debt obligation of Rs.2.36 crore to Rs.3.63 crore for the same period. However, its working capital limits remained at 87% during the past twelve months ended June 2023 indicating moderated liquidity buffer. Further, absence of any capex plans provides further cushion to the liquidity position.

About the company

Ganga Iron & Steel Trading Company Limited (GISTCL) is located in Nagpur, Maharashtra. GISTCL originally was formed as a proprietorship firm in 1991 by Late Shri Omprakashji



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Agrawal and was converted into Limited company on June 3, 2008. GISTCL is engaged in the trading and distribution of steel products like Angles, Beam, Channel, TMT, Wire rod, CR Coil, GC Sheet etc. The company has 6 warehouses namely in Durgapur, Vishakhapatnam, Mumbai, Pune and two warehouses in Nagpur. GISTCL is the Authorised Distributor for SAIL (Steel Authority of India), RINL (Rashtriya Ispat Nigam Limited), Jindal Steel & Power Limited JSW Steel Limited and ESSAR Steel (Stecol International Private Limited). The company supplies the products PAN India and trades in around 700 SKUs.

Financials (Standalone):

(Rs. crore)

| For the year ended* / As on | 31.03.2022 | 31.03.2023 |
|-----------------------------|----------------|--------------------|
| | Audited | Provisional |
| Total Operating Income | 498.62 | 572.97 |
| EBIDTA | 6.56 | 10.37 |
| PAT | 1.71 | 4.48 |
| Total Debt | 65.41 | 56.35 |
| Tangible Net Worth | 54.00 | 58.49 |
| Adjusted Tangible Net Worth | 54.00 | 58.49 |
| EBDITA Margin (%) | 1.32 | 1.81 |
| PAT Margin (%) | 0.34 | 0.78 |
| Overall Gearing Ratio (x) | 1.21 | 0.96 |

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Ratings (Year 2023-24) | | | Rating History for the past 3 years | | |
|---------|-------------------------------|--------------------------------|--------------------------------|------------------|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 |
| 1. | GECL 2 | Long Term | 5.15 | IVR BBB-/ Stable | - | - | - |
| 2. | GECL 2 Ext. | Long Term | 3.80 | IVR BBB-/ Stable | - | - | - |
| 3. | Cash Credit | Long Term | 49.00 | IVR BBB-/ Stable | - | - | - |



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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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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 |
|------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| GECL 2 | - | - | December 2026 | 5.15 | IVR BBB-/ Stable |
| GECL 2 Ext. | - | - | April 2029 | 3.80 | IVR BBB-/ Stable |
| Cash Credit | - | - | - | 49.00 | IVR BBB-/ 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-GISCPL-aug23.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.