October 08, 2021 (Revised)

Goodluck India Limited: [ICRA]BBB+(Stable)/[ICRA]A2; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Working Capital	392.62	[ICRA]BBB+(Stable); Assigned
Short-term- Non-Fund Based	122.49	[ICRA]A2; Assigned
Fund Based- Term Loans	144.95	[ICRA]BBB+(Stable); Assigned
Total	**660.06**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings favourably factor in Goodluck India Limited's (GIL) experienced management and its long track record of operations in the downstream steel industry. It has a diversified product mix, which includes a wide range of pipes and tubes (such as black pipes, galvanised pipes, and precision tubes) along with cold rolled sheets, forged components and structural engineering products. GIL remains well diversified in terms of product mix, insulating it from the risk of slowdown in any particular industry, and also in terms of geographical presence with exports constituting a healthy share of GIL's overall revenue. Access to overseas markets insulates GIL's revenue profile from demand fluctuations in the domestic market and provides higher growth opportunities. The company's technical expertise in manufacturing high precision and value-added products like auto tubes, forged components and critical engineering structures (comprising more than 50% of the total sales) ensured better pricing flexibility over the years, strengthening the company's operating profile. The ratings also draw comfort from the company's established relationship with a reputed clientele comprising Larsen & Toubro Limited (rated [ICRA]AAA/Stable/A1+), Hindustan Aeronautics Limited (rated [ICRA]AA+/Stable/A1+) etc, which ensures repeat business and mitigates the counterparty credit risk to a large extent. While assigning the ratings, ICRA has also noted the company's ability to report profitable operations across business cycles. The company reported a healthy financial performance in Q1 FY2022, posting its best quarterly performance in the recent years with a ~43% quarter-on-quarter growth in operating profits. ICRA believes that GIL's business outlook remains favourable for the remainder of FY2022 with resilient demand from the end-user industries, which in turn is expected to support higher asset sweating and consequently healthy earnings growth.

The ratings are, however, tempered by GIL's working capital intensive nature of operations owing to high inventory requirements, high collection period, and prompt payment terms with its suppliers. This led to a high reliance on working capital borrowings and limited available headroom in working capital limits. With modest margins, GIL had to depend on borrowings to fund its business growth. Besides, sizeable debt-funded capex undertaken in the past, led to consistently negative free cash flows over the years, resulting in an increase in the overall debt levels relative to the size of the balance sheet. High debt levels and moderate profitability resulted in modest debt coverage indicators for the company. The ratings also factor in the susceptibility of GIL's profitability and cash flows to the volatility in raw material prices. Besides, the profitability remains susceptible to the prevailing competition in the market, given the fragmented nature of the downstream finished steel conversion industry. However, ICRA believes that such competition is mitigated to an extent by the company's sizeable revenue generation from the high precision and value-added segments, like auto-steel tubes and forgings, where margins remain attractive. While assigning the ratings, ICRA has noted that the company's incremental return on capital employed has remained subdued due to low asset sweating of its new facility in Bhuj, Gujarat.

The Stable outlook on the long-term rating reflects ICRA's expectations that GIL will continue to benefit from the favourable operating environment for its products, which will support healthy earnings growth in the near to medium term.

Key rating drivers and their description

Credit strengths

Diversified product mix with a high share of value-added products; geographically diversified revenue mix – GIL has a diversified product mix, which includes a wide range of pipes and tubes (such as black pipes, galvanised pipes, and precision tubes), along with cold rolled sheets, forged components and structural engineering products. GIL remains well diversified in terms of product mix, insulating it from the risk of slowdown in any particular industry, and also in terms of geographical presence with exports constituting a healthy share of GIL's overall revenue. Access to overseas markets insulates GIL's revenue profile from demand fluctuations in the domestic market and provides higher growth opportunities. The company's technical expertise in manufacturing high precision and value-added products like auto tubes, forged components and critical engineering structures (comprising more than 50% of the total sales) ensured better pricing flexibility over the years, strengthening the company's operating profile.

Extensive experience of the promoters; a reputed client base – The promoters of the company have experience of more than three decades in the downstream steel industry. The company has a well-established relationship with a reputed clientele comprising Larsen & Toubro, Hindustan Aeronautics etc, which ensures repeat business and mitigates counterparty credit risk to a large extent.

Profitable operations across business cycles – GIL's performance is closely linked to demand from its key end-user segments like pipes, capital goods, railways, infrastructure, and automotive industries among others. The demand from these sectors exhibit cyclicality. However, ICRA notes that, due to the diversification benefits of its earnings streams coming from multiple end-use sectors, even during periods of subdued demand from some end-user segments, GIL has been able to report profitable operations.

Healthy financial performance in Q1 FY2022, expected to sustain in the rest of FY2022 – The company posted its best quarterly performance in the recent years with a ~43% quarter-on-quarter growth in the operating profits in Q1 FY2022. ICRA believes that GIL's business outlook remains favourable for the remainder of FY2022 with resilient demand from the end-user industries, which in turn is expected to support higher asset sweating and consequently healthy earnings growth.

Credit challenges

Consistently negative free cash flows – GIL's working capital intensive nature of operations owing to high inventory requirements, high collection period, and prompt payment terms with suppliers resulted in high reliance on working capital borrowings. This led to the consistently high utilisation of the sanctioned working capital limits. With modest margins, GIL had to depend on borrowings to fund its business growth. Besides, sizeable debt-funded capex undertaken in the past, led to consistently negative free cash flows over the years, resulting in an increase in the overall debt levels relative to the size of the balance sheet. However, with the likely moderation of the company's capex intensity going forward, and an expected increase in the profit margin in the first half of the current fiscal, ICRA expects GIL's free cash flows to turn positive in FY2022.

Modest debt coverage indicators – The working capital-intensive nature of operations amid a growing scale resulted in an increased reliance on working capital debt. This along with the debt-funded capex undertaken in the past, kept GIL's overall debt levels high. Besides, modest margins resulted in modest debt coverage indicators, as reflected in an interest coverage of 2.1 times and DSCR of 1.2 times in FY2021. However, with limited capex plans over the near-to-medium term, ICRA expects GIL's debt levels to moderate, with the interest cover likely to improve to 3.0-3.5 times between FY2022 and FY2024.

Susceptibility of profitability and cash flows to volatility in raw material prices – Like other steel converters, GIL is exposed to volatility in steel prices due to the lag in price adjustments following fluctuations in raw material (mainly hot rolled coil) prices. Besides, the profitability remains susceptible to the competition prevailing in the market, given the fragmented nature of the downstream finished steel conversion industry. However, the same is mitigated to an extent owing to the company's sizeable revenue contribution from the high precision and value-added segments.

Liquidity position: Adequate

GIL's liquidity profile is assessed as **adequate**. The company's elongated cash conversion cycle and modest profit margins constrained the free cash flow generation, making the company dependent on bank borrowings to scale up its operations. The company's working capital utilisation levels remain high, as reflected in an average ~94% utilisation of the drawing power over the 12 months ended in July 2021. Nonetheless, with healthy fund flow from operations expected in the current fiscal and limited capex commitments, ICRA expects GIL to report positive free cash flows in FY2022, which would support in bringing down its overall borrowing levels.

Rating sensitivities

Positive factors – Ratings upgrade could happen if the company demonstrates a consistent improvement in its profitability along with efficient management of working capital that would strengthen its debt coverage indicators and liquidity profile. The specific trigger for an upgrade would be DSCR above 2 times on a sustained basis.

Negative factors – Pressure on the company's ratings could arise if its working capital needs weigh on its liquidity buffers substantially. The specific trigger for ratings downgrade would be DSCR below 1.5 times and/or an interest coverage below 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GIL.

About the company

Goodluck India Limited (GIL), incorporated in 1986, manufactures steel pipes and tubes, steel structures and steel forgings. GIL's product portfolio includes mild steel black pipes, galvanised iron pipes, cold drawn welded precision tubes, forgings, steel towers and cold rolled steel sections. The company has manufacturing facilities at Sikandrabad and Dadri in Uttar Pradesh and Bhuj, Gujarat for all these components, with a manufacturing capacity of 1,99,000 metric tonnes per annum (MTPA) for pipes and tubes, 55,000 MTPA for sheets, 60,000 MTPA for steel structures and 12,000 MTPA for steel forgings.

Key financial indicators (Audited)

GIL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	1635.9	1572.1
PAT (Rs. crore)	33.9	30.1
OPBDIT/OI (%)	7.8%	7.4%
PAT/OI (%)	2.1%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.9
Total Debt/OPBDIT (times)	4.1	4.8
Interest Coverage (times)	2.1	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Oct 8, 2021	Sep 24, 2020	Apr 20, 2020	Sep 23, 2019	Oct 26, 2018
1	Fund Based-Working Capital	Long-term	392.62	-	[ICRA]BBB+ (Stable)	[ICRA]BBB(Negative); Withdrawn	[ICRA]BBB(Negative)	[ICRA]BBB(Negative)	[ICRA]BBB(Stable)
2	Fund Based-Term Loans	Long-term	144.95	144.95	[ICRA]BBB+ (Stable)	[ICRA]BBB(Negative); Withdrawn	[ICRA]BBB(Negative)	[ICRA]BBB(Negative)	[ICRA]BBB(Stable)
3	Short-term-Non Fund Based	Short-term	122.49	-	[ICRA]A2	[ICRA]A3+; Withdrawn	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based- Working Capital	Simple
Short-term- Non-Fund Based	Very simple
Fund Based- Term Loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Axis Bank	Fund Based- Working Capital	NA	NA	NA	12.00	[ICRA]BBB+(Stable)
Bank of Baroda	Fund Based- Working Capital	NA	NA	NA	30.22	[ICRA]BBB+(Stable)
HDFC Bank	Fund Based- Working Capital	NA	NA	NA	60.00	[ICRA]BBB+(Stable)
IDFC First Bank	Fund Based- Working Capital	NA	NA	NA	54.40	[ICRA]BBB+(Stable)
Kotak Mahindra Bank	Fund Based- Working Capital	NA	NA	NA	50.50	[ICRA]BBB+(Stable)
RBL Bank	Fund Based- Working Capital	NA	NA	NA	16.00	[ICRA]BBB+(Stable)
SBI	Fund Based- Working Capital	NA	NA	NA	126.50	[ICRA]BBB+(Stable)
NA	Fund Based- Working Capital (Unallocated)	NA	NA	NA	43.00	[ICRA]BBB+(Stable)
RBL Bank	Short-term- Non Fund Based	NA	NA	NA	8.00	[ICRA]A2
Axis Bank	Short-term- Non Fund Based	NA	NA	NA	25.00	[ICRA]A2
Bank of Baroda	Short-term- Non Fund Based	NA	NA	NA	18.00	[ICRA]A2
HDFC Bank	Short-term- Non Fund Based	NA	NA	NA	12.50	[ICRA]A2
IDFC First Bank	Short-term- Non Fund Based	NA	NA	NA	24.99	[ICRA]A2
Kotak Mahindra Bank	Short-term- Non Fund Based	NA	NA	NA	16.00	[ICRA]A2
SBI	Short-term- Non Fund Based	NA	NA	NA	18.00	[ICRA]A2
Axis Bank	Fund Based- Term Loans	March 2017	NA	March 2026	40.45	[ICRA]BBB+(Stable)
Bajaj Finance Ltd	Fund Based- Term Loans	March 2017	NA	March 2026	1.14	[ICRA]BBB+(Stable)
HDFC Bank	Fund Based- Term Loans	March 2017	NA	March 2026	33.75	[ICRA]BBB+(Stable)
IDFC First Bank	Fund Based- Term Loans	March 2017	NA	March 2026	37.70	[ICRA]BBB+(Stable)
Kotak Mahindra Bank	Fund Based- Term Loans	March 2017	NA	March 2026	9.41	[ICRA]BBB+(Stable)
SBI	Fund Based- Term Loans	March 2017	NA	March 2026	22.50	[ICRA]BBB+(Stable)

Source: *Company;*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Corrigendum

Details of lenders have been updated in Annexure 1

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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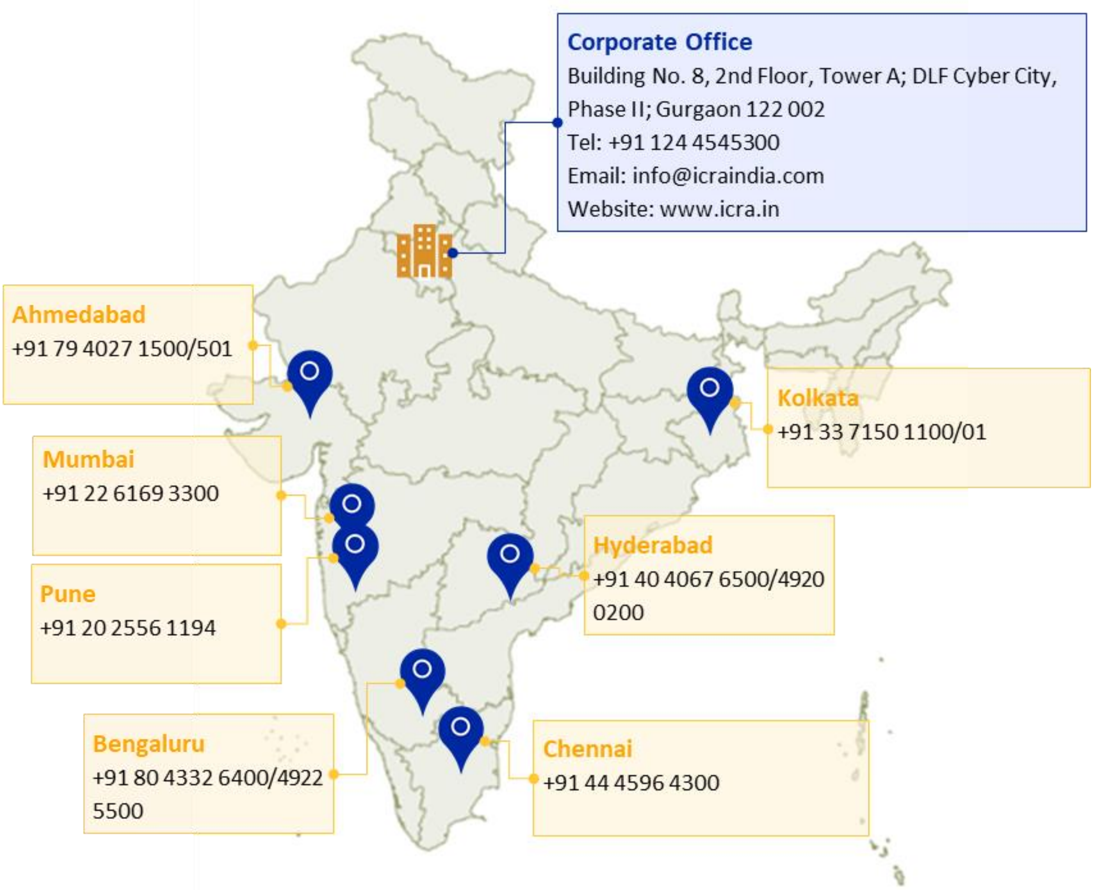

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