Goodluck India Limited

Instrument	Amount (Rs Crore)	December 2016
Fund Based Limits	246.62 (earlier Rs 231.62 crore)	[ICRA] BBB+ (Stable) *reaffirmed*
Term Loans	86.36 (earlier Rs 80.03 crore)	[ICRA] BBB+ (Stable) *reaffirmed*
Non-Fund Based Limits	90.00 (earlier Rs 73.04 crore)	[ICRA]A2 *reaffirmed*
Unallocated Limits	0.00 (earlier Rs 6.31 crore)	-

ICRA has reaffirmed the ratings for Rs. 422.98 crore[1] (enhanced from Rs. 391.0 crore) fund-based/non-fund based limits and term loans of Goodluck India Limited (GIL) (erstwhile Goodluck Steel Tubes Limited)[†] at [ICRA]BBB+ (pronounced as ICRA triple B plus) and [ICRA]A2 (pronounced as ICRA A two). The outlook on the long-term rating is Stable.

The reaffirmation of ratings continues to factor in GIL's experienced management and its long track record of operations in the steel tubes industry; enhancement in manufacturing capacities over the last two years and consistently healthy utilization levels of the same (over 85%); its diversified customer base with top 10 customers contributing about 20% to the revenues; and geographical diversification in revenue stream as reflected by around 27% contribution of exports in total sales. The ratings also take into account the improvement in profitability witnessed during FY2016 to 10.1% from 7.7% in FY2015 owing to the decline in raw material prices and increasing proportion of value added products in the total revenues. Although the profitability witnessed a decline in H1FY2017 to 9.3% with raw material prices remaining firm, it still remains higher from earlier levels of 7-7.5%. There has been a constant endeavor by the management to tilt the sales mix towards value added products like precision tubes, structural products and forged products as reflected by increasing capacities of these products and increasing proportion of revenues from these products which now stand at over 50%. At the same time, these products diversify the end-use industries for the company which mitigates against slow down in any particular segment.

The ratings are however constrained by GIL's continued dependence on external debt on account of high working capital requirements and capex done in the past to increase the manufacturing capacities, which has resulted in elevated debt levels and thus relatively leveraged capital structure as reflected by gearing of 1.68 times as on March 31, 2016. The debt coverage indicators also remain moderate as reflected by interest coverage of 2.55 times, NCA/TD of 13% and debt/OPBDITA of 3.51 times as on March 31, 2016 (2.09x, 11% and 3.59x respectively as on September 30, 2016). The working capital intensity of business increased as on March 31, 2016 (Net Working Capital / Operating Income of 34%) owing to increase in inventory levels which continue to remain elevated since then. GIL stocked up inventory of HR Coils towards the end of FY2016 to benefit from lower import prices at that time. High working capital intensity has resulted in consistently high utilization of working capital limits indicating moderate liquidity cushion. Steady repayment of term liabilities, no further capex, and containment of inventory holding are important for improvement in debt metrics of the company. GIL also faces high degree of competition from large number of small and marginal players and few large players, especially in the black pipes segment which keeps the pricing power under check. Further, any demand slowdown or sluggishness in infrastructure activity exposes the company to risks of lower revenue generation and build-up of receivables.

Going forward, the ability of the company to augment its revenues while sustaining the profitability margins and to contain its working capital requirements will form the key rating sensitivities.

Company Profile

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[1] 100 lakh = 1 crore = 10 million
[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Goodluck India Limited (erstwhile Goodluck Steel Tubes Ltd.), incorporated in 1986, is engaged in the business of manufacturing steel pipes & tubes, steel structures and steel forgings. GSTL's product portfolio includes mild steel (MS) black pipes, galvanized iron (GI) pipes, galvanized product (GP) pipes, cold drawn welded (CRW) precision tubes, forgings, steel towers and cold rolled (CR) steel sections. GSTL has its manufacturing facilities at Sikanderabad (U.P) for all these components. GSTL has a manufacturing capacity of 115,000 MTPA for pipes and tubes, 55,000 MTPA for sheets, 48,000 MTPA for steel structures and 12,000 MTPA for steel forgings.

Recent Results

GIL reported net sales of Rs 993.0 crore and PAT of Rs 33.2 crore in FY2016 as against net sales of Rs. 1086.8 crore and PAT of Rs 27.2 crore in FY2015. In H1FY2017, GIL reported net sales of 545.6 crore and PAT of Rs 12.1 crore.

December 2016

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