July 14, 2017

Goodluck India Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based – Cash Credit	246.62	[ICRA]BBB (Stable); Revised from [ICRA]BBB+ (stable)
Fund-based – Term Loan	86.36	[ICRA]BBB (Stable); Revised from [ICRA]BBB+ (stable)
Non fund-based limits	90.00	[ICRA]A3+; Revised from [ICRA]A2
Total	**422.98**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has revised the ratings for the Rs. 422.98-crore[1] fund-based limits, non-fund based limits and term loans of Goodluck India Limited (GIL) from [ICRA]BBB+ (pronounced ICRA triple B plus) and [ICRA]A2 (pronounced ICRA A two) to [ICRA]BBB (pronounced ICRA triple B) and [ICRA]A3+ (pronounced ICRA A three). The outlook on the long-term rating is 'Stable'.

Rationale

The revision in the ratings and the outlook take into account pressures on profitability during H2FY2017; higher than envisaged capex for FY2017 which along with higher working capital borrowings led to increase in debt levels as on March 2017; corresponding deterioration in debt coverage metrics; and fresh round of debt-funded capex planned for FY2018. There was a material increase in raw material prices during H2 FY2017 which resulted in deterioration in operating profitability of GIL from 10.1% in FY2016 to 8.0% in FY2017. The debt coverage indicators of the company weakened during FY2017 as reflected by interest coverage of 1.84x (2.55x for FY2016), net cash accruals/total debt of 9% (12%) and total debt/OPBDITA of 4.7x (3.5x). Moreover, the company has planned a green-field debt-funded capex of Rs. 74 crore for 72,000 TPA capacities in Gujarat, to be executed in FY2018. The working capital intensity of business continues to remain high with Net Working Capital / Operating Income of 36% as on March 31, 2017 owing to increase in inventory levels post increase in raw material prices. High working capital intensity has resulted in consistently high utilization of working capital limits indicating moderate liquidity cushion. 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.

The ratings continue 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 of revenue stream with exports contributing 27% to total sales. There has been a focus by the management to increase the revenue contribution from value added products like precision tubes, structural products and forged products

[1] *100 lakh = 1 crore = 10 million*

which now stand at over 55%. At the same time, these products diversify the end-use industries for the company which mitigates the risk of slow down in any particular segment.

Going forward, the ability of the company to improve its profitability margins while sustaining operating income levels and to contain its debt levels and working capital requirements will form the key rating sensitivities.

Key rating drivers

Credit strengths

- Experienced management of the company with long track record in pipes business
- Product diversification and focus on value-added products as the share of high value products such as precision tubes, structural pipes and forgings in GIL's overall product mix is on an increase
- Limited customer concentration with top 10 customers account for about 20% of total revenues
- Geographical diversification with presence in India as well as foreign markets with exports contributing about 25%-30% of its revenues

Credit weaknesses

- Deterioration in capital structure with significant increase in debt levels as reflected by gearing of 1.78 times as on March 31, 2017
- Pressure on profitability from 10.1% in FY2016 to 8.0% in FY2017 with sharp increase in raw material prices
- Increase in debt and pressure on profitability have resulted in pressure on coverage indicators as reflected by interest coverage of 1.84 times, NCA/Debt of 9% and debt/OPBDITA of 4.7 times as on March 31, 2017
- High working capital intensity with NWC/OI of more than 35% as on March 31, 2017

Description of key rating drivers:

Goodluck India Limited (GIL) is a UP-based manufacturer of steel pipes and tubes with a manufacturing capacity of 230,000 TPA. The promoters have more than 30 years of experience in the steel pipes and tubes industry.

The operating income has largely remained stagnant over the last five years. With increase in share of value-added products the profitability was on an increasing trend over the last three years, however the same was arrested during FY2017 owing to steep increase in raw material prices which the company was unable to pass on to its customers, especially in H2 FY2017. Increase in raw material prices resulted in higher inventory levels and thus higher working capital borrowings as of March 31, 2017. Moreover, the long term debt levels were higher as of March 31, 2017 with continuous debt funded capex which resulted in elevated debt levels. These factors resulted in pressure on debt coverage indicators as on March 31, 2017.

Moreover the company is planning a debt-funded green-field capex for 72,000 TPA capacity in Gujarat. The size of the capex is around Rs. 74 crore which is proposed to be funded by debt of Rs. 52 crore. This will further result in addition in total debt levels. The project is proposed to start commercial operations in FY2019.

Analytical approach: For arriving at the ratings, ICRA has considered the standalone financial and operating profile of GIL along with applying the rating methodologies as mentioned below.

Links to applicable criteria:
[Corporate Credit Rating Methodology]
[Rating Methodology for Entities in the Ferrous Metals Industry]

About the company:

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. GIL'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. GIL has its manufacturing facilities at Sikanderabad (U.P) for all these components, with 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.

In FY2017, GIL reported a net profit after tax of Rs. 22.0 crore on an operating income of Rs. 1093.5 crore, as compared to a net profit of Rs. 33.2 crore on an operating income of Rs. 993.0 crore for FY2016.

Particulars (Rs. Crore)	**FY2015**	**FY2016**	**FY2017**
Operating Income	1086.6	993.0	1093.5
PAT	27.2	33.2	22.0
OPBDITA/OI (%)	7.7%	10.1%	8.0%
RoCE (%)	15.7%	16.2%	12.2%
Total Debt/TNW (times)	1.71	1.68	1.78
Total Debt/OPBDITA (times)	3.72	3.51	4.71
Interest coverage (times)	2.24	2.55	1.84
NWC/OI (%)	27%	34%	36%

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017	Dec 2016	Nov 2015	Jan 2015
1	Fund based limits	Long Term	246.62	[ICRA]BBB (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB (Stable)
2	Term loans	Long Term	86.36	[ICRA]BBB (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB (Stable)
3	Non fund based limits	Short Term	90.00	[ICRA]A3+	[ICRA] A2	[ICRA] A2	[ICRA] A3+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Fund based limits	-	-	-	246.62	[ICRA]BBB (Stable)
Term loans	FY2015-FY2017	-	FY2019-FY2022	86.36	[ICRA]BBB (Stable)
Non fund based limits	-	-	-	90.00	[ICRA]A3+

Source: Goodluck India Limited

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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.

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