Goodluck India Limited

October 26, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	86.36	86.36	[ICRA]BBB (Stable); reaffirmed
Fund-based - Working Capital Facilities	246.62	246.62	[ICRA]BBB (Stable); reaffirmed
Non-fund Based - Working Capital Facilities	90.0	90.0	[ICRA]A3+; reaffirmed
Total	**422.98**	**422.98**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the ratings for the Rs. 422.98-crore[1] bank lines of Goodluck India Limited (GIL) at [ICRA]BBB (pronounced ICRA triple B) and [ICRA]A3+ (pronounced ICRA A three plus)[2]. The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation factors in GIL's experienced management and its long track record of operations in the steel tubes industry, steady enhancement of manufacturing capacities, and consistently healthy utilisation levels of the same (over 85%). The company's diversified customer base with the top-10 customers contributing about 20% to the revenues, and geographical diversification of the revenue stream with exports contributing 29% to total sales also support the rating. The management remains focused on increasing revenue contribution from value-added products like precision tubes, structural products and forged products which now stand at over 55%. At the same time, these products diversify the end-user industries, which mitigates the risk of slowdown in any particular segment. Moreover, the company has commenced operations from the new facility at Bhuj, which has added capacity of 72,000 TPA. With this facility starting production, the volumes are expected to grow at a healthy pace, continuing the trend of steady revenue growth. Furthermore, proximity to the port provides cost savings in freight, which can translate into improvement in profitability.

The ratings, however, remain constrained by GIL's moderate operating profitability (7.8% in FY2018 and 7.9% in Q1 FY2019), mainly owing to intense competition in the pipes and tubes industry amid focus on improving sales. The pipes and tubes industry is intensely competitive, given the relatively low entry barriers and the commoditised nature of products. Further, the profitability remains exposed to the volatility in raw material prices. The ratings also consider the consistent debt-funded capex which has kept the long-term debt levels high because of material debt repayment commitments. In addition, the working capital intensive operations have led to high reliance on working capital borrowings with consistently high utilisation of the sanctioned working capital limits. Moderate profitability, high working capital intensity and steady capex over the years have translated into moderate cash flow position, increasing its

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

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

dependence on external funding. These factors have also resulted in modest debt coverage indicators as evidenced by debt/OPBDITA of 4.58 times, interest coverage of 1.76 times, and NCA/debt of 8% as on March 31, 2018.

Going forward, the company's ability to maintain liquidity cushion amid sales growth from the Bhuj plant, improve its asset utilisation and profitability, as well as limit the debt levels would remain the key rating sensitivities.

Outlook: Stable

ICRA believes that GIL will report healthy growth in sales with the commencement of operations of the Bhuj unit. The outlook may be revised to Positive if a sustained improvement in profitability, along with better working capital management, strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, or if there is any major capital expenditure, or a stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in pipes and tubes industry - Incorporated in 1986, the company has a track record of over three decades of operations in the pipes and tubes industry. This has enabled it to establish strong relationships with reputed customers such as L&T Limited, GE T&D India Limited etc.

Diversified product mix with focus on value-added products - Over the years, GIL has developed capabilities to manufacture a wide range of pipes and tubes such as black pipes, galvanised pipes, precision tubes, along with cold rolled (CR) sheets, forged components and structural products. GIL has been focusing on value-added segments and hence, has increased its capacities in these segments, which has resulted in the same contributing 55% to its total sales.

Commencement of greenfield facility at Bhuj to drive OI growth - GIL commenced operations in its greenfield facility at Bhuj, which added 72,000-TPA capacity in the pipes and tubes segment in July 2018. While the existing capacities were utilised to the tune of 80%, the addition of new capacities is expected to result in healthy volume growth going forward, resulting in an increase in turnover.

Geographical diversification - GIL is present is the export markets as well. In FY2018, exports contributed 29% to the total sales of the company. Further, the new unit in Bhuj, which is located in close proximity to the Kandla port, will help the company save freight costs on exports.

Diversified customer base - GIL primarily supplies to institutional customers and dealers and the customer base is fragmented with the top-10 customers constituting only 20% to its total sales. Moreover, the company's diversified product portfolio along with exposure to the diversified end-user industries mitigate the risks associated with slowdown in any one industry segment.

Credit challenges

Pressure on operating margins - The operating margins have consistently deteriorated over the last two years to 7.8% in FY2018 from 10.1% in FY2016. Focus on revenue growth amid intense competition in the pipes and tubes industry kept margins under pressure.

Relatively high working capital intensity due to high receivables and inventory period - The receivable cycle and inventory holding period for the company remained high, which resulted in relatively high working capital intensity as measured by NWC/OI of 32% as on March 31, 2018.

Elevated debt levels and moderate profitability put pressure on coverage indicators - The relatively high working capital intensity and weak cash flow position resulted in an increased reliance on external debt, which along with debt-funded capex kept the debt level high. This, coupled with moderate profitability, resulted in weak coverage indicators as reflected by debt/OPBDITA of 4.58 times, interest coverage of 1.76 times, and NCA/debt of 8% as on March 31, 2018.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated 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 involved in manufacturing steel pipes and tubes, steel structures and steel forgings. GIL's product portfolio includes mild steel (MS) black pipes, galvanised iron (GI) pipes, galvanised 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 (UP) 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 FY2018, the company reported a net profit of Rs. 14.7 crore on an OI of Rs. 1,270.4 crore compared with the net profit of Rs. 19.8 crore on an OI of Rs. 1,093.0 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,093.0	1,270.4
PAT (Rs. crore)	19.8	14.7
OPBDIT/OI (%)	8.0%	7.8%
RoCE (%)	12.1%	12.3%
Total Debt/TNW (times)	1.78	1.79
Total Debt/OPBDIT (times)	4.75	4.58
Interest Coverage (times)	1.81	1.76

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Mar 2018) (Rs. crore)	Date &Rating Oct 2018	Date & Rating in FY2018 Jul 2017	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Nov 2015
1	Term Loan	Long Term	86.36	61.28	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	246.62	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Letter of Credit & Bank Guarantee	Short Term	90.0	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2015-FY2017	-	FY2019-FY2022	86.36	[ICRA]BBB (Stable)
NA	Fund-based CC	NA	NA	NA	246.62	[ICRA]BBB (Stable)
NA	Non-fund Based Limits	NA	NA	NA	90.0	[ICRA]A3+

Source: Goodluck India Limited

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