September 23, 2019

Goodluck India Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	86.36	86.36	[ICRA]BBB (Negative); reaffirmed, outlook revised to negative from Stable
Fund-based - Working Capital Facilities	246.62	246.62	[ICRA]BBB (Negative); reaffirmed, outlook revised to negative from Stable
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*

Rationale

The revision in the outlook factors in the anticipated weakening in the demand prospects of Goodluck India Limited's (GIL) products amid the economic downturn, which may constrain its operating income (OI) growth as well as profits. This coupled with the company's sizeable debt repayment obligations would result in deterioration in debt protection metrics. The ratings remain constrained by GIL's moderate operating profitability (7.7% in FY2019 and 7.8% in Q1 FY2020), mainly owing to intense competition in the pipes and tubes industry amid focus on improving sales. The pipes and tubes industry is intensely competitive and fragmented, 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 debt-funded capex done by the company in the past, which has kept the long-term debt levels elevated, resulting in sizeable debt repayment commitments. In addition, the working capital-intensive operations have led to high reliance on working capital borrowings, reflected in 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 dependence on external funding. These factors have also resulted in modest debt coverage indicators as evidenced by total debt/OPBDITA of 3.99 times, interest coverage of 2.09 times, and NCA/debt of 12% as on March 31, 2019.

The ratings, however, are supported by 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, which has resulted in healthy growth in volumes in the past. The company's diversified customer base with the top 10 customers contributing about 30% to the revenues, and geographical diversification of the revenue stream with exports contributing 28% 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%, thereby diversifying the end-user industries. The company commenced operations from the new facility at Bhuj, which resulted in around 30% growth in turnover in FY2019. Moreover, proximity to the port provides cost savings in freight, which can translate into profitability improvement.

Key rating drivers and their description

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.

Growth in OI post commencement of greenfield facility at Bhuj - GIL commenced operations in its greenfield facility at Bhuj, which added 72,000-TPA capacity in the pipes and tubes segment. The addition of new capacities resulted in healthy volume growth of 15%, resulting in 30% increase in turnover in FY2019. Although the growth continued in Q1 FY2020, the same is expected to moderate, which along with a decline in realisations is expected to result in muted sales growth for FY2020.

Geographical diversification - GIL is present is the export markets as well. In FY2019, exports contributed 28% to the total sales of the company. Further, it is focusing on the export markets with the new unit in Bhuj located in close proximity to the Kandla port, which will help GIL save freight costs on exports.

Diversified customer base - GIL primarily supplies to institutional customers and dealers. Its customer base is fragmented with the top 10 customers constituting 30% 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. The company has developed healthy relations with customers like L&T, GE T&D, Sterling & Wilson, etc., given the extensive experience of the promoters.

Credit challenges

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 28% as on March 31, 2019. The working capital intensity improved from the March 31, 2018 levels on account of the release of GST recoverable in FY2019.

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 in the past, kept the debt levels high. This, coupled with moderate profitability, resulted in weak coverage indicators as reflected by debt/OPBDITA of 3.99 times, interest coverage of 2.09 times, and NCA/debt of 12% as on March 31, 2019. Although in the absence of any major capex plans and scheduled repayment obligations, the debt levels are expected to decline, which can lead to improvement in coverage indicators to some extent.

Steadily declining profitability margins - The OI growth remained healthy in the past, while margins remained rangebound and steadily declining. The company has been focusing on volume growth to consolidate its capacity utilisation levels as well as to penetrate newer markets. This along with intense competition in the pipes and tubes industry kept margins under pressure, which is expected to continue going forward.

Intense competition from large as well as unorganised players - The ERW pipes market is inherently competitive with the presence of large established players like Surya Roshni, Jindal Pipes, Welspun Corp., APL Apollo, etc., in addition to several unorganised and regional players. Thus, the profitability remains susceptible to the competitive pressure prevailing in the market, given the fragmented nature of the industry.

Liquidity position: Adequate

GIL's liquidity is **Adequate** with cash flow from operations of nearly Rs. 20-25 crore, free cash balances of around Rs. 2 crore and minimal capex commitments going forward. Although the debt repayment commitments are sizeable, ICRA expects GIL to be able to meet its commitments adequately.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade is less likely in the near term. However, a change in outlook to Stable or upward movement in rating could happen if the company demonstrates consistent improvement in its profitability along with efficient management of working capital that would allow strengthening of debt coverage indicators.

Negative triggers – Negative pressures on GIL's rating could arise if the company's growing working capital needs weigh on its liquidity buffers substantially. Among other reasons that could trigger a downgrade include the company's debt/OPBITDA exceeding 4.50 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone - The ratings are based on standalone financial profile of Goodluck India Limited

About the company

Goodluck India Limited, 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 and Dadri in Uttar Pradesh and Bhuj, Gujarat for all these components, with manufacturing capacity of 1,87,000 MTPA for pipes and tubes, 55,000 MTPA for sheets, 60,000 MTPA for steel structures and 12,000 MTPA for steel forgings.

In FY2019, the company reported a net profit of Rs. 30.6 crore on an OI of Rs. 1,656.8 crore compared with the net profit of Rs. 14.7 crore on an OI of Rs. 1,270.4 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,270.4	1,656.8
PAT (Rs. crore)	14.7	30.6
OPBDITA/OI (%)	7.8%	7.7%
RoCE (%)	12.3%	14.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.40	2.35
Total Debt/OPBDITA (times)	4.58	3.99
Interest Coverage (times)	1.76	2.09
DSCR	1.23	1.28

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding (June 2019)	Rating	FY2019	FY2018	FY2017
					23-Sep-2019	26-Oct-2018	14-Jul-2017	28-Dec-2016
1	Term Loan	Long Term	86.36	83.36	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash Credit	Long Term	246.62	-	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Letter of Credit & Bank Guarantee	Short Term	90.0	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2015-FY2018	9.3%-10.7%	FY2022-FY2024	86.36	[ICRA]BBB (Negative)
NA	Cash Credit	-	-	-	246.62	[ICRA]BBB (Negative)
NA	Letter of Credit & Bank Guarantee	-	-	-	90.0	[ICRA]A3+

Source: Goodluck India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

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