April 20, 2020

Goodluck India Limited: Update

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); outstanding
Fund-based - Working Capital Facilities	246.62	246.62	[ICRA]BBB (Negative); outstanding
Non-fund Based - Working Capital Facilities	90.0	90.0	[ICRA]A3+; outstanding
Total	**422.98**	**422.98**	

**Instrument details are provided in Annexure-1*

Rationale

The rating update follows the impact of the novel coronavirus (Covid-19) pandemic on the domestic steel industry. The pan-India lockdown announced by the Government of India (GoI) on March 24, 2020 and the subsequent extension is expected to result in weak demand for steel during Q1 FY2021, thus constraining the overall consumption growth for FY2021. ICRA estimates that sharp demand contraction in Q1 FY2021 to result in piling up of inventory, leading to correction in steel prices. The demand will only pick up with the manufacturing and consumption in the end-user industries stabilising gradually after the lockdown is lifted.

The manufacturing operations at the Goodluck India Limited's (GIL) facilities have been stalled due to the lockdown, creating pressure on the company's liquidity position. ICRA notes that GIL is likely to seek a moratorium on payments from its lenders until May 31, 2020, as per the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. The above rescheduling of loans has been factored in the ratings. The company has also availed the Covid-19 emergency credit line from its lenders, which has also supported its liquidity position.

The outlook on the long-term rating was earlier revised to Negative in September 2019 on the anticipated weakening in the demand prospects of GIL's products amid the economic downturn, which may constrain its operating income (OI) growth as well as profits. The demand prospects are expected to remain weak.

Given the environment, the liquidity cushion between the available cash balances and unutilised lines of credit, and the debt servicing requirements remain key. ICRA will continue to monitor the developments and take the suitable rating action in case the lockdown is prolonged and the demand prospects remain challenging, leading to pressure on the company's liquidity position.

Key rating drivers and their description

https://www.icra.in/Rationale/ShowRationaleReport/?Id=88525

Liquidity position: Stretched

GIL's liquidity is **stretched** in the current scenario with no manufacturing operations amid the nationwide lockdown. While the company has committed payables in the current quarter, the cash flow generation is expected to be limited.

GIL has availed the Covid-19 emergency credit line from banks and is likely to avail the moratorium till May 31, 2020, which is expected to help it in tiding over the current situation to some extent.

Rating sensitivities

Positive triggers – Given the Negative outlook, an upgrade seems unlikely in the medium term. However, the outlook can be revised to Stable if the company demonstrates healthy operational performance with improvement in profitability with better working capital management.

Negative triggers – The ratings can be downgraded if the lockdown is prolonged resulting in pressure on cash flow generation, which along with elongation of working capital cycle will exert pressure on the liquidity position.

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 (GIL), incorporated in 1986, manufactures 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. The company has 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

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Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021) Type	Amount Rated	Amount Outstanding (June 2019)	Rating 20-Apr-2020	Rating History for the Past 3 Years FY2020 23-Sep-2019	FY2019 26-Oct-2018	FY2018 14-Jul-2017
1	Term Loan	Long Term	86.36	83.36	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash Credit	Long Term	246.62	-	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[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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Analyst Contacts

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999