

August 04, 2017

## Garg Industries Limited

### Summary of rated instruments

Instrument <sup>#</sup>	Rated Amount (in crore)	Rating Action
Fund-based Limits	22.00	[ICRA]BB (Stable) ISSUER NOT COOPERATING*; Rating moved to the 'Issuer Not Cooperating' category
Non-fund based Limits	2.00	[ICRA]A4 ISSUER NOT COOPERATING*; Rating moved to the 'Issuer Not Cooperating' category
<b>Total</b>	<b>24.00</b>	

\*Issuer did not co-operate; based on the best available information

#Instrument Details captured under Annexure-1

### Rating action

ICRA has moved the ratings for the Rs. 24.00-crore<sup>1</sup> bank facilities of Garg Industries Limited (GIL) to the 'Issuer Not Cooperating' category. The rating is now denoted as: “[ICRA]BB (Stable)/[ICRA]A4 ISSUER NOT COOPERATING”.

### Rationale

The rating is based on limited cooperation from the entity since the time it was last rated in August 2016. The lenders, investors and other market participants are thus advised to exercise appropriate caution while using this rating, as the rating does not adequately reflect the credit risk profile of the entity. The entity's credit profile may have changed since the time it was last reviewed by ICRA. However, in the absence of requisite cooperation from the entity, ICRA is unable to take a definitive rating action.

As part of its process and in accordance with its rating agreement with GIL, ICRA has been trying to seek information from the entity so as to monitor its performance and has also been sending repeated reminders to the entity for payment of surveillance fee that became due. Despite multiple requests by ICRA, the management has remained non-cooperative. In the absence of requisite cooperation and in line with SEBI's Circular No. SEBI/HO/MIRSD4/CIR/2016/119, dated November 01, 2016, ICRA's Rating Committee has taken a rating view based on the best available information.

### Key rating drivers

#### Credit strengths

- **Experienced promoters with long track record in the steel industry** – GIL's promoters have an extensive experience of around 25 years in the steel industry. In addition to GIL, the promoters have set up two other companies in the industry – Raipur Power and Steel Limited (RPSL)<sup>2</sup> that was incorporated in 2007 and Parth Concast Limited (PCL)<sup>3</sup> that was incorporated in FY2015.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> Rated [ICRA]BBB- (negative)/[ICRA]A3

<sup>3</sup> Rated [ICRA]BBB- (negative)

- **Comfortable capital structure** – GIL’s debt primarily comprises working capital borrowings, which stood at Rs. 15.9 crore as on March 31, 2017. The company’s capital structure has remained comfortable as reflected by gearing (Total Debt/Tangible Net Worth) of 0.9 times as on March 31, 2017.

#### Credit weaknesses

- **Modest profitability on account of low-value adding operations** – GIL’s primary business activity is manufacturing wire rods by rolling of steel billets. This activity involves limited value addition, as a result of which GIL’s operating profitability has remained at modest levels. Further, low profitability has resulted in subdued debt-coverage indicators as reflected by Debt/OPBDITA of 4.3 times as on March 31, 2017
- **High working capital intensity on account of sizeable inventory levels** – GIL’s working capital intensity has remained high with net working capital/operating income (NWC/OI) of 28% as on March 31, 2017. This is primarily on account of sizeable raw material inventory holdings maintained by the company coupled with low payable days.
- **Vulnerability of profitability to adverse movement in raw material prices and inherent cyclical nature of steel industry** – GIL’s profitability and cash flow generation remain exposed to changes in prices of key raw materials (primarily billets). Further, the steel industry is inherently cyclical in nature, which exposes GIL’s profitability to periodic downturns in the industry.

**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

Incorporated in 1991, GIL manufactures wire rods from steel billets (capacity of 36,000 tonne per annum or TPA) at its manufacturing facilities in Ludhiana. The company is promoted by the Garg family of Ludhiana – Mr. N.D. Garg, Mr. Vinod Garg and Mr. Balraj Garg. The promoters of the company have set-up two other companies – RPSL and PCL. RPSL manufactures sponge iron, ferro alloys, billets, iron ore pellets, wire rods and HB wires in Durg, Chattisgarh. PCL manufactures billets from sponge iron at its manufacturing facilities located adjacent to those of RPSL in Durg.

In FY2017, GIL reported profit after tax (PAT) of Rs. 0.9 crore on an OI of Rs. 116.7 crore, as per provisional financials. In FY2016, the company reported PAT of Rs. 0.9 crore on an OI of Rs. 115.3 crore, as per audited financials.

**Key Financial Indicators (Audited)**

	FY2015	FY2016
Operating Income (Rs. crore)	108.2	115.3
PAT (Rs. crore)	0.9	0.9
OPBDIT/ OI (%)	4.0%	4.3%
RoCE (%)	8.1%	8.5%
Total Debt/ TNW (times)	1.1	1.0
Total Debt/ OPBDIT (times)	5.3	4.5
Interest coverage (times)	1.6	1.6
NWC/ OI (%)	31.1%	29.0%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*  
*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA**

CRISIL, in its rating advisory published on GIL dated May 04, 2017, has stated the following:

*“This rating advisory is provided in relation to the rating of Garg Industries Limited. CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Garg Industries Limited (GIL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get to cooperate with its rating process for enabling it to carry out the rating review. CRISIL views information availability risk as a key factor in its assessment of credit risk. If GIL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.”*

**Any other information:** Not applicable

**Rating history for last three years**
**Table**

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				<b>Aug 2017</b>	<b>Aug 2016</b>	<b>NA</b>	<b>NA</b>
1	Fund-based Limits	Long Term	22.00	[ICRA]BB (Stable) ISSUER NOT COOPERATING*	[ICRA]BB (Stable)	NA	NA
2	Non-fund Based Limits	Short Term	2.00	[ICRA]A4 ISSUER NOT COOPERATING*	[ICRA]A4	NA	NA

\*Issuer did not cooperate; based on best available information

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance/ Sanction</b>	<b>Coupon rate</b>	<b>Maturity Dated</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Fund-based Limits	-	-	-	22.00	[ICRA]BB (Stable) ISSUER NOT COOPERATING*
Non-fund Based Limits	-	-	-	2.00	[ICRA]A4 ISSUER NOT COOPERATING*

Source: GIL

\*Issuer did not cooperate; based on best available information

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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.

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.

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