

March 27, 2017

## Gautam Industrial Corporation Pvt. Ltd.

<b>Instrument*</b>	<b>Rated Amount (in Rs. crore)</b>	<b>Rating Action</b>
Long-term – Cash Credit	5.00	[ICRA]B+(Stable) assigned
Short-term – Letter of Credit*	(3.00)	[ICRA]A4 assigned
Short-term – Bank Guarantee	1.80	[ICRA]A4 assigned
<b>Total</b>	<b>6.80</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has assigned the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 5.00 crore fund based facility of Gautam Industrial Corporation Pvt. Ltd. (GICPL). ICRA has also assigned the short-term rating of [ICRA]A4 to the Rs. 1.80 crore bank guarantee limit and the Rs. 3.00 crore letter of credit facility (sub-limit of cash credit) of the company. The outlook on the long-term rating is 'Stable'.

### Detailed rationale

The assigned ratings take into account the modest scale of operations, with fluctuations seen in operation income in the past, high gearing and high working capital intensity due to stretched receivables and high inventory. The profitability level has also remained low resulting from low value addition in the business and intense competition in the steel trading industry, owing to a high degree of fragmentation. The ratings also factor in the susceptibility of profit to adverse movements in commodity prices, given the high inventory holding along with the cyclical nature of investment patterns of GICPL's key end-user industries, such as oil and gas, petrochemicals and refineries, among others.

The ratings, however, factor in the vast experience of the promoters in the steel tube and pipes industry and take comfort from GICPL being an authorised dealer for Tube Investment of India Limited (TIIL) since 1993.

Going forward, ICRA expects the operating income to remain moderate because of limited investments in the oil and gas sector, and intense competition in the steel industry. Consequently, the company's ability to scale up its operations amid intense competition and manage its working capital requirement efficiently to generate adequate cash flows, while reducing debt level, will remain critical from a credit perspective.

### Key rating drivers

#### Credit Strengths

- Long experience of promoters in the steel tubes and pipes industry
- Authorised dealer of TIIL since 1993.

**Credit Weakness**

- Modest scale of operations and volatility seen in operating income in the past
- High working capital intensity owing to high inventory and slow receivables
- High gearing due to reliance on working capital borrowings to support high working capital intensive operations
- Highly fragmented nature of the steel trading sector, characterised by intense competition and limited value addition, leading to low operating profitability.
- Operations exposed to cyclicity in the investment patterns of the key end-user industries.

**Detailed description of key rating drivers:**

GICPL has been an authorised dealer of TIL since 1993. However, the company's scale of operations continues to remain moderate, with volatility seen in revenues in the past five fiscals. Its net working capital intensity is high due to high inventory levels and stretched debtors. The company relies on working capital borrowings and creditors to support the funding gap. Given the high inventory level, the exposure to price fluctuation risk is high as well. Nevertheless, the inventory level has reduced in the current year, due to conscious efforts by the management.

GICPL's profitability remains under pressure because of intense competition and limited value addition. The company's customer base includes end-users from various industries such as oil and gas, petrochemicals, refineries and fertilisers. The company's operations are exposed to the cyclicity in the investment patterns in these industries.

**Analytical approach:** ICRA has assigned the ratings following a detailed evaluation of the issuer's business and financial risks.

**Links to applicable criteria**

[Corporate Credit Rating –A Note on Methodology](#)

[Rating Methodology for Trading Companies](#)

**About the company:**

The late Mr. Nareshkumar Bhansali, Mr. Jayantilal Bhansali and Ms. Nirmala Bhansali set up GICPL as a partnership firm in December 1993. It was converted into a private limited company in 2014. The company trades in mild steel, alloy steel and stainless steel pipes and tubes (electric resistance welded and seamless) as well as ferrous and non-ferrous fittings of various dimensions and sizes. Its registered office is in Surat (Gujarat).

**Status of non-cooperation with previous CRA:** Crisil had assigned the ratings of CRISIL B+/CRISIL A4 to the bank facilities of GIPL in September 2015. It has issued rating advisory on 10<sup>th</sup> February 2017 stating that if GICPL 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: Rating History**

S.No	Name of Instrument	Current Rating (2017)		Chronology of Rating History for the past 3 years			
		Type	Amount outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				<b>March 2017</b>			
1	Cash Credit	Long - term	6.80	[ICRA]B+ (Stable)	Not Rated	Not Rated	Not Rated
2	Bank Guarantee	Short - term	1.80	[ICRA]A4	Not Rated	Not Rated	Not Rated
3	Letter of Credit	Short - term	(3.00)*	[ICRA]A4	Not Rated	Not Rated	Not Rated

*\*Sublimit of Cash Credit*

**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**  
**Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	12.60%	-	5.00	[ICRA]B+ (Stable)
Bank Guarantee	-	-	-	1.80	[ICRA]A4
Letter of Credit*	-	-	-	(3.00)	[ICRA]A4

*\*Sublimit of Cash Credit*

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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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