

September 10, 2019

## Gaurishanker Bihani: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Cash Credit	15.00	15.00	[ICRA]B+ (Stable); Reaffirmed
Unallocated Limit	5.00	5.00	[ICRA]B+ (Stable); Reaffirmed
<b>Total</b>	<b>20.00</b>	<b>20.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation considers Gaurishanker Bihani's (GSB) low operating profitability due to the trading nature of business, high gearing and depressed debt coverage indicators. This coupled with the cyclical nature associated with the steel industry is likely to keep the revenues and cash flows of the firm volatile in future. The rating also takes into account the risk associated with the entity's profile as a partnership firm, including the risk of capital withdrawal by the partners.

The rating, however, favourably factors in the experience of the promoters in the trading business and the established relationship with Tata Steel Ltd. (TSL) as the firm is an exclusive project distributor for TSL's TISCON brand in West Bengal.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that GSB will continue to benefit from the extensive experience of its partners, the firm's established position as a distributor of TSL's TISCON brand in West Bengal and long relationship with customers.

### Key rating drivers and their description

#### Credit strengths

**Experience of promoters in steel trading business** - The promoters has more than eight decades of experience in the iron and steel trading industry. The customer base of GSB comprises primarily construction and heavy-engineering companies located in West Bengal. An established relationship with clients results in repeat orders.

**Exclusive project distributor for TSL's TISCON brand in West Bengal** - GSB trades in TMT bars and HR products and caters to the raw material requirements of primarily construction and heavy engineering companies. The firm is the exclusive project distributor of TSL's TISCON brand TMT bars in West Bengal. GSB also deals in TSL's HR products though the volume is low compared to TMT bar's sales value. While TMT bars are mainly sold to construction and heavy-engineering companies, HR products are sold to retailers.

#### Credit challenges

**Limited value addition and intensely competitive nature of steel-trading business result in low profitability** - Low margin in trading sales and intense competition in the metals trading industry kept the firm's operating margin at a low

level. The same declined further to 2.23% in FY2019 from 2.72% in the previous year, though the firm's scale of operations improved in FY2019.

**High working capital debt continues to keep gearing high though the same has declined in FY2019 compared to the preceding year; coverage indicators continue to remain depressed-** The working capital requirement of GSB is high as the firm makes payment in cash for purchases from TSL but extends credit to its customers. It also maintains adequate inventory levels. Out of GSB's total debt of Rs. 42.10 crore as on March 31, 2019, the working capital loan (consisting of cash credit and channel finance) stood at Rs. 33.71 crore. The remaining was interest-bearing unsecured loans from partners and their relatives. High debt level and a modest tangible net worth kept the firm's gearing high at 4.57 times as on March 31, 2019, though the same declined to an extent from 5.00 times in the previous year. GSB's low operating profitability and a highly leveraged capital structure resulted in weak debt coverage indicators with interest coverage of 1.13 times and a total debt relative to OPBDITA of 7.72 times in FY2019.

**Vulnerability to fluctuation in steel prices and cyclicity in construction and infrastructure sectors** - The firm's profitability and cash flows are likely to remain susceptible to volatility in steel prices to an extent. Moreover, the demand of products traded by GSB, i.e., TMT bars and HR coils are mainly derived from the construction and infrastructure sectors, which exhibit significant cyclicity in tandem with the macro-economic scenario.

**Risks associated with the entity's status as a partnership firm** - The legal status of the entity as a partnership firm exposes it to the risks of capital withdrawal by the partners.

### Liquidity position: Stretched

GSB has a **stretched** liquidity position, with low fund flow from operations (Rs. 0.6-0.7 crore only in the last two fiscals) and a modest cash balance (Rs. 0.08 crore as on March 31, 2019). The firm's utilisation of the channel financing facilities remained very high in the recent months, constraining the liquidity further, notwithstanding relatively low utilisation of its cash credit limit and absence of any long-term debt repayment obligations.

### Rating sensitivities

**Positive triggers-** ICRA could upgrade GSB's ratings if it demonstrates a sustained improvement in interest coverage ratio by increasing its operating profits or by reducing its interest and finance costs. The specific credit metrics that could lead to an upgrade of the firm's rating is an increase in the interest coverage (OPBDITA/Interest & Finance Charges) to greater than 1.5 times on a sustained basis.

**Negative triggers-** Negative pressure on the firm's rating could arise if, among other reasons, the interest coverage ratio falls below 1.1 times.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial statements of Gaurishanker Bihani

## About the company

Gaurishanker Bihani was incorporated in 1936 as a proprietorship firm by Late Gaurishanker Bihani and in 1974, it was reconstituted as a partnership firm. Based in Kolkata, West Bengal, GSB is an exclusive project distributor of TSL's TISCON TMT bars in the state and an authorised dealer of TSL's HR flat products.

## Key financial indicators

Standalone	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	178.71	244.84
PAT (Rs. crore)	0.59	0.77
OPBDIT/OI (%)	2.72%	2.23%
RoCE (%)	8.66%	10.68%
Total Outside Liabilities/Tangible Net Worth (times)	5.24	5.16
Total Debt/OPBDIT (times)	9.15	7.72
Interest Coverage (times)	1.16	1.13
DSCR	1.16	1.18

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					10-Sep-2019	29-May-2018	-	03-Feb-2017
1	Cash Credit	Long Term	15.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)
2	Unallocated Limit	Long Term	5.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)

## 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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]B+ (Stable)
NA	Unallocated Limit	NA	NA	NA	5.00	[ICRA]B+ (Stable)

Source: Gaurishanker Bihani

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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