

Rating Advisory

December 08, 2021 | Mumbai

Gala Global Products Limited

Advisory as on December 08, 2021

This rating advisory is provided in relation to the rating of Gala Global Products Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Improved liquidity profile mostly backed by enhanced working capital limits with moderation in average limit utilization to below 90 percent or infusion of long term funds.
- Improvement in working capital cycle on sustainable basis

Downward factors

- Deterioration in working capital cycle with gross current assets rising over 150 days or weakening of margins.
- Any large capex or decline in accruals adversely impacting the liquidity.

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 Ratings is yet to receive adequate information from Gala Global Products Limited (GGPL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If GGPL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About The Company

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Rating Rationale

September 04, 2020 | Mumbai

Gala Global Products Limited

Rating downgraded to 'CRISIL BB+/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.5 Crore
Long Term Rating	CRISIL BB+/Stable (Downgraded from 'CRISIL BBB-/Stable')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its rating on the long term bank facilities of Gala Global Products Limited (GGPL) to '**CRISIL BB+/Stable**' from 'CRISIL BBB-/Stable'.

The rating action reflects GGPL's weaker than expected liquidity profile amidst delays in the enhancement of working capital limits and continued working capital intensity. Due to certain unanticipated issues, GGPL's earlier (March 2020) limit enhancement to Rs. 14.75 cr has not been disbursed and company continues to operate with a working capital limit below Rs. 5 cr coupled with reliance on short term business loans. Consequently, GGPL's working capital limits have remained almost fully drawn. With operations remaining working capital intensive, GGPL's liquidity is likely to remain constrained in absence of limit enhancement or infusion of long term funds.

The rating reflects the extensive experience of the promoters in the printing industry, a healthy relationship with a diversified customer base, and moderate capital structure. These rating strengths are partially offset by stretched liquidity, an average scale of operations, modest profitability, working capital-intensive operations, and presence in a highly fragmented industry.

Key Rating Drivers & Detailed Description

Strengths:

* **Extensive industry experience of the promoters and healthy customer relationship:** The promoters have an experience of over 25 years in the printing industry. This has enabled them to build a good relationship with suppliers and customers and should continue to support the business.

* **Moderate capital structure:** The capital structure is moderate with tangible networth was Rs 26 crore and the gearing of 0.54 time, as on March 31, 2020. The interest coverage and net cash accruals to total debt ratios were moderate at 2.8 times and 0.22 times in fiscal 2020 (though coming down sharply from 9.17 times and 0.56 time, respectively, in fiscal 2019).

Weaknesses:

* **Average scale of operations and modest profitability in an intensely competitive industry:** Revenue was Rs 101 crore in fiscal 2020 remaining flattish over the previous year. COVID-19 impacted the revenue booking towards the end of fiscal 2020 and shall also affect current year's performance. The operating margin was modest around 5.5% in fiscal 2020 moderating from 6.5-7% levels seen in prior couple of years.

* **Working capital-intensive operations:** Gross current assets were high over 4 months as on March 31, 2020, driven by high inventory, debtors and blockage of funds in retention money and fixed deposits. With the business involving execution of orders in short period and then debtor realization over an extended period, operations are expected to remain working capital intensive.

* **Presence in a highly fragmented industry:** The printing industry is highly fragmented and competitive, with a large number of unorganised players in the market. This limits the pricing flexibility and bargaining power of players. Also, the threat from capacity addition by large integrated players limits growth. Furthermore, the entry barrier is low. The small initial investment and low complexity of operations have resulted in a large number of small entities, leading to significant fragmentation

Liquidity Stretched

Liquidity is stretched marked by fully drawn bank limits amidst delay in enhancement of working capital limit and working capital intensive operations, though adequate accruals against repayment obligations. The inherent nature of GGPL's work results in blockage of funds in debtors, retention money, margin money which along with execution of work in short period leads to high working capital intensity. Further, the company has faced unanticipated delays in enhancement of working capital limit putting strain on liquidity. Consequently, GGPL operates with almost fully drawn working capital limits and continued reliance on high cost business loans to support the working capital requirements.

Outlook: Stable

CRISIL believes GGPL will continue to benefit from the extensive industry experience of its promoters.

Rating Sensitivity factors

Upward factors

* Improved liquidity profile mostly backed by enhanced working capital limits with moderation in average limit utilization to below 90 percent or infusion of long term funds.

* Improvement in working capital cycle on sustainable basis

Downward factors

* Deterioration in working capital cycle with gross current assets rising over 150 days or weakening of margins.

* Any large capex or decline in accruals adversely impacting the liquidity.

About the Company

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Key Financial Indicators

As on / for the period ended March 31		2020	2019
Operating income	Rs crore	101	100
Reported profit after tax	Rs crore	2	3
PAT margins	%	1.9	3.4
Adjusted Debt/Adjusted Net worth	Times	0.54	0.35
Interest coverage	Times	2.8	9.2

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating

Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue Size (Rs Crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit & Working Capital demand loan	NA	NA	NA	4.35	NA	CRISIL BB+/Stable
NA	Proposed Cash Credit Limit	NA	NA	NA	0.65	NA	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	5.00	CRISIL BB+/Stable	30-03-20	CRISIL BBB-/Stable			26-12-18	CRISIL BBB-/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit & Working Capital demand loan	4.35	CRISIL BB+/Stable	Cash Credit & Working Capital demand loan	4.35	CRISIL BBB-/Stable
Proposed Cash Credit Limit	.65	CRISIL BB+/Stable	Proposed Cash Credit Limit	.65	CRISIL BBB-/Stable
Total	5	--	Total	5	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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