

Rating Advisory

July 19, 2022 | Mumbai

Gujarat Containers Limited

Update as on July 19, 2022

This rating advisory is provided in relation to the rating of Gujarat Containers Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Sustained topline growth of 25% coupled with steady margin.
- Sharp improvement in capital structure and steady debt protection measures

Downward factors

- Consistently higher than expected leverage (total outside liabilities to tangible net worth) ratio over 2 times
- Deterioration in working capital cycle or decline in margin putting pressure on 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 Gujarat Containers Limited (GCL) 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 GCL 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

Incorporated in 1992, GCL is promoted by Mr Kiran Shah and Mr Pravin Shah and other business associates. The company manufactures specialised barrels, such as galvanised, composite, epoxy, R-11, and plain and high-molecular high-density polyethylene carboys. The manufacturing facilities are in Vadodara and Bharuch (Gujarat). The barrels manufactured are used for storing chemicals, dyestuffs, pharmaceuticals, resins, petrochemicals, and petroleum and its by-products.

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Rating Rationale

June 29, 2021 | Mumbai

Gujarat Containers Limited

Long-term rating upgraded to 'CRISIL BB+ / Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.23 Crore
Long Term Rating	CRISIL BB+/Stable (Upgraded from 'CRISIL BB / Stable')
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities of Gujarat Containers Limited (GCL) to '**CRISIL BB+/Stable**' from 'CRISIL BB/Stable' and has reaffirmed the rating on short-term bank facilities at 'CRISIL A4+.

The upgrade reflects CRISIL Ratings' belief of sustenance of GCL's improved financial profile over medium term. GCL's total outside liabilities to tangible net worth (TOLTNW) ratio is expected to remain below 2 times. Also, its interest coverage is expected to remain above 3 times as against less than 2 times historically. These shall be driven by scale up in operations and improved profitability on account of improved realization, better plant capacity utilization and automation at plant.

The ratings reflect the extensive experience of GCL's promoters in the barrel manufacturing industry, and moderate financial profile. These strengths are partially offset by average scale of operations, large working capital requirement, and exposure to volatility in steel prices and cyclicity in steel industry.

Key Rating Drivers & Detailed Description

Strengths:

- **Promoters' extensive experience in the barrel manufacturing industry:**
The promoters have an experience of over 25 years in packaging industry. This has given them an understanding of the dynamics of the market, and enabled them to establish relationships with suppliers and customers.
- **Moderate financial profile**
GCL's gearing is expected to be remain moderate around 1.5 times over medium term. Its interest coverage was much improved at 2.8 times for 9 months to December 2020, as against 1.9 times in previous fiscal. Though net worth is estimated to remain modest, healthy accretions in fiscal 2021 shall lead to an improvement from Rs. 11.9 cr as on March 31, 2021.

Weaknesses:

- **Average scale of operations and large working capital requirement:**
Scale remains average, despite growth, with revenue of Rs 59 crore in 9 months to December 2020. Gross current assets remain high around 4-5 months, driven by sizeable debtors and inventory, of around 50 and 80 days, respectively.
- **Exposure to volatility in steel prices and cyclicity in steel industry:**
Profitability is largely linked to the fortunes of the steel industry. Also, demand is highly sensitive to any change in iron and steel prices.

Liquidity: Adequate

Bank limit utilisation is high at around 95.4 percent driven by the rising raw material prices and working capital intensity. However, sanction of GECL funding and recent enhancement in limits (to Rs. 20 cr from Rs. 16 cr) to provide support to the

working capital requirements. Cash accrual are expected to be around Rs. 5 cr which are sufficient against annual term debt obligation of Rs. 1.5-2 cr over the medium term.

Outlook: Stable

CRISIL Ratings believes GCL will continue to benefit from its promoters' extensive experience and established relationships with suppliers and customers.

Rating Sensitivity factors

Upward factors

- Sustained topline growth of 25% coupled with steady margin.
- Sharp improvement in capital structure and steady debt protection measures

Downward factors

- Consistently higher than expected leverage (total outside liabilities to tangible net worth) ratio over 2 times
- Deterioration in working capital cycle or decline in margin putting pressure on liquidity.

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Key Financial Indicators

As on / for the period ended March 31		2020	2019
Operating income	Rs crore	75.72	79.12
Reported profit after tax	Rs crore	0.62	1.00
PAT margins	%	0.80	1.18
Adjusted Debt/Adjusted Net worth	Times	1.90	2.35
Interest coverage	Times	1.79	1.78

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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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	NA	NA	NA	14	NA	CRISIL BB+/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	2	NA	CRISIL A4+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	4.69	NA	CRISIL BB+/Stable
NA	Standby Letter of Credit	NA	NA	NA	1.5	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	Mar-23	0.81	NA	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	19.5	CRISIL BB+/Stable		--	30-03-20	CRISIL BB/Stable		--	31-12-18	CRISIL BB/Stable	CRISIL BB/Stable
Non-Fund Based Facilities	LT/ST	3.5	CRISIL BB+/Stable / CRISIL A4+		--	30-03-20	CRISIL BB/Stable / CRISIL A4+		--	31-12-18	CRISIL BB/Stable / CRISIL A4+	CRISIL BB/Stable / CRISIL A4+

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	14	CRISIL BB+/Stable	Cash Credit	14	CRISIL BB/Stable
Letter of credit & Bank Guarantee	2	CRISIL A4+	Letter of credit & Bank Guarantee	2	CRISIL A4+
Proposed Long Term Bank Loan Facility	4.69	CRISIL BB+/Stable	Proposed Long Term Bank Loan Facility	4.69	CRISIL BB/Stable
Standby Letter of Credit	1.5	CRISIL BB+/Stable	Standby Letter of Credit	1.5	CRISIL BB/Stable
Term Loan	0.81	CRISIL BB+/Stable	Term Loan	0.81	CRISIL BB/Stable
Total	23	-	Total	23	-

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt

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