

## Ghatge Patil Industries Limited

January 27, 2020

### Ratings

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	194.01 (enhanced from 183.75)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	<b>Rating Reaffirmed; Outlook revised from Stable to Negative</b>
Short term Bank Facilities	110.00	CARE A3 (A Three)	<b>Reaffirmed</b>
<b>Total</b>	<b>304.01</b> <b>(Rs. Three Hundred Four Crore and One lakh only)</b>		
Fixed Deposit	<b>40.00</b> <b>(Rupees Forty Crore Only)</b>	CARE BBB-(FD); Negative (Triple B Minus (Fixed Deposit); Outlook : Negative)	<b>Rating Reaffirmed; Outlook revised from Stable to Negative</b>

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities and fixed deposits (FD) of Ghatge Patil Industries Limited (GPIL) takes into consideration, the increase in total operating income during FY19, further supported by long and established track record of the company of over five decades, experienced promoters and long-standing relationship with the reputed clientele.

The rating strengths however, are constrained by unenvisioned decline in profitability, coupled with susceptibility to current slowdown in end user auto industry, working capital intensive operations led by pending realizations of receivables from group companies, susceptibility to the volatile raw material prices and intense competition. The ratings also take a note of planned debt funded capital expenditure.

### Rating Sensitivity

#### Positive Factors

- The ability of the company to improve profitability and debt protection metrics on sustained basis.
- Timely receipt of receivables from Group Company and subsidy receipt from Government of Maharashtra.

#### Negative Factors

- Further deterioration in the company's profitability and gearing from current level.
- Continued slowdown of end user auto industry.

### Outlook: Negative

The revision in the outlook to 'Negative' from 'Stable' takes into account, the decline in profitability margin during FY 19 and current slowdown in auto industry, which may impact the financial risk profile and debt protection metrics for FY20. Moreover, the profitability and overall margins would remain under pressure against the backdrop of ongoing capital expenditure.

The outlook may be revised to 'Stable' if the company is able to significantly improve its total operating income and attain the profitability margins, debt coverage indicators & comfortable capital structure, realize subsidy income and improved auto sector performance.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### *Long established track record and experienced promoters*

GPIL has more than five decade of experience in the casting industry and is one of the established and well-known player in casting and valve industry. GPIL is currently managed by second and third generations of the Patil family and is spearheaded by Mr Kiran J Patil Chairman and Managing Director (CMD) of the company. Mr Kiran Patil, is a graduate in Mechanical Engineering and has a master degree in management from U.S.A. He has an experience of more than three and half decades

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

in the casting industry. Other directors are well qualified and have a long standing experience. The top management is well supported by the qualified second tier management team.

***Diversified product portfolio and long standing association with reputed customers***

GPIL derives its revenues mainly from two divisions - Foundry division contribute above 75% of total operating income, engaged in the manufacturing of grey iron and S.G. iron castings for automotive industries (mainly tractor manufacturers) and Product division, engaged in manufacturing of valves, clutches and gear boxes (mainly for oil & gas industry and marine industry). The foundry division continues to contribute substantially towards the TOI of the company on account of continuous orders from its long term customers such as John Deere India Pvt. Ltd. (JDIPL), TAFE Motors and Tractors Limited, Carraro India Limited etc. Furthermore, GPIL has also purchased windmill and units generated from it are considered under captive consumption against electricity used for Plant I.

***Moderate Capital Structure and Working Capital Cycle***

GPIL had moderate capital structure with overall gearing (excluding revaluation reserve) being 1x as on March 31, 2019 as compared to 1.08x as on March 31, 2018. GPIL had marginally improved operating cycle to 103 days during FY19 as compared to 125 days during FY18. Improving capital structure and debt protection metrics is key rating monitorable.

***Key Rating Weaknesses***

***Financial risk profile marked by the marginal growth in the total operating income, however registered PBT loss during FY19***

The TOI of the company registered a y-o-y growth of 17.67% to Rs.747.52 crore during FY19 as compared to TOI of Rs.635.24 Crore during FY18 mainly on account of sales growth achieved by the foundry division which improved from Rs.447.23 Crore during FY18 to Rs.540.38 Crore during FY19 as well as sales from product division improved by 14.58%. During 9MFY20 the company reported TOI of Rs.463.51 Crore with the PBILDT margin of 13.90%.

However, the PBILDT margin of the company reduced to 8.91% during FY19 against 13.57% during FY18. The company registered PBT loss of Rs.0.55 Crore during FY19 as against profit of Rs.20.76 Crore during FY18 largely due to non-receipt of subsidy income and increase in raw material costs. The interest coverage ratio and TDGCA of the company also weakened to 1.80x (P.Y.: 2.53x) and 8.61x (P.Y.:5.29) respectively.

***Exposure to the subsidiary company***

GPIL's exposure to its subsidiary company Indus Ferro Tech Limited in the form of loans and advances stood at Rs.49.75 Crore as on March 31, 2019 (P.Y.: Rs.46.82 crore as on March 31, 2018).

GPIL also have trade receivables from JV, Omni valve LLC, USA (OVL) and IFTL amounting to Rs.77.25 Cr and Rs.76.42 Cr as on March 31, 2019.

In addition, GPIL has also extended corporate guarantees towards bank facilities availed by JV, Omni valve LLC, USA and Indus Ferro Tech Limited to the tune of Rs.36.50 crore and Rs.59.20 crore respectively as on March 31, 2019. Any further exposure to subsidiary companies, impacting gearing and liquidity levels of GPIL is key rating monitorable.

***Risk associated with volatility in raw material price, performance of product division partially linked to crude oil prices***

The key raw material of GPIL comprises of pig iron, steel, aluminium and mild steel scrap which are generally procured from the domestic market. GPIL operates in an industry where the raw material cost is one of the major cost drivers (Constituting about 47% of income from foundry division for the period FY19) and one of the major components to impact operating margin. Thus, the company is sensitive to any adverse movement in prices of raw materials and ability of the company to pass on the same to its customers is limited with existing competition. Thus there is risk relating to variation in raw material prices and adverse impact on operating margins.

GPIL's product division manufactures industrial valves, which mainly find applications in the oil and natural gas industry. As witnessed in the past, performance of this particular division is directly affected by crude oil prices, as capex plans of industry players are linked to fluctuations in crude oil prices.

***Intense competition from organized and unorganized players for foundry division***

GPIL manufactures products and operates in an industry which comprises several players in the unorganized sector and is also characterized by high degree of fragmentation. Large players also exist resulting in intense competition in the industry. The foundry industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized machinery for production. Therefore pricing is the key for the company to garner customer especially with no long term contracts. However, it is not easy for a new entrant to break into an existing vendor-OEM relationship.

### Liquidity-Stretched

Liquidity is market by tightly matched accruals to repayment obligations, highly utilized bank limits and modest cash balance. The business segment requires high working capital; the funds are blocked with inventories and receivables. Liquidity of GPIL is marked by high usage of average fund based working capital and its average utilization level was around 92% during 12 months ended December, 2019. The GCA reduced to Rs.27.91 Cr during FY19 against Rs.47.94 Cr during FY18. The current ratio of the company remained at similar level at 1.29x as on March 31, 2019 as compared to 1.13x as on March 31, 2018. The cash and bank balances of the company stood at Rs.2.89 crore as on March 31, 2019.

### Industry Outlook

On the back of slowdown in auto segment and weak near term outlook, growth challenges remain for auto component Industry. But, increased usage of tractor in non-agricultural domains such as, rural development activities, road construction, rural housing and infrastructure projects will further increase demand of tractors.

**Analytical approach:** *Standalone*

### Applicable Criteria

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial Ratios-Non Financial Sector](#)

[Rating Methodology-Auto Ancillary Companies](#)

### About the Company

GPIL was established by Mr J B Patil and Mr V M Ghatge as a partnership firm in 1960 in Kolhapur, Maharashtra, which was reconstituted as a private limited company in the same year. GPIL was co-managed by the 'Ghatge' and the 'Patil' families till 1989 post which it was restructured and since then has been managed by the 'Patil' family. GPIL has two divisions - the foundry division and the product division. The foundry division has an installed capacity of 7,500 MTPM (metric tonnes per month) and manufactures grey iron castings and spheroidal graphite iron castings (S.G iron casting) having weights in the range of 10 kg to 250 kg. The foundry division caters to automotive industries (primarily tractor manufacturers). The product division is engaged in manufacturing of industrial valves, gear box and clutches primarily catering to the oil and gas (O&G) industry and the marine industry. The product division has been accredited with 'API (American Petroleum Institute) 6A' and 'API 6D' certification for manufacturing of valves required for selling valves globally. GPIL has a wholly-owned subsidiary named Indus Ferro Tech Limited (IFL) located in the close vicinity of GPIL at Kolhapur, Maharashtra, engaged in the machining of castings including shot blast, fettling, painting, etc, for the products manufactured by GPIL. IFL started commercial production from July 2014 with FY15 (refers to the period April 1 to March 31) been the first full year of operations. The application for merger of GPIL and IFTL is filed and is under process with NCLT. GPIL has also entered into a joint venture (JV, 56% held by GPIL) with Omni Valves LLC (OVL), USA, for the sales of the valves.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	635.24	747.52
PBILDT	86.17	66.60
PAT	20.22	1.46
Overall gearing (times)	0.50	0.47
Overall gearing (times) (Excluding Revaluation Reserve)	1.08	1.00
Interest coverage (times)	2.53	1.80

A: Audited

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

Not Applicable

**Any other information:**

Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities:**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2023	77.01	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	72.00	CARE BBB-; Negative
Fund-based - ST-EPC/PSC	-	-	-	78.00	CARE A3
Non-fund-based - ST-LC/BG/LOU(Letter of Undertaking) (Short term)	-	-	-	32.00	CARE A3
Fund-based - LT-Proposed fund based limits	-	-	June 2023	45.00	CARE BBB-; Negative
Fixed Deposit	-	-	-	40.00	CARE BBB- (FD); Negative

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fixed Deposit	LT	40.00	CARE BBB- (FD); Negative	-	1)CARE BBB- (FD); Stable (14-Dec-18)	1)CARE BB+ (FD); Negative (06-Oct-17)	1)CARE BB+ (FD); Negative (12-Dec-16) 2)CARE BB+ (FD) (07-Oct-16)
2.	Fund-based - LT-Term Loan	LT	77.01	CARE BBB-; Negative	-	1)CARE BBB-; Stable (14-Dec-18)	1)CARE BB+; Negative (06-Oct-17)	1)CARE BB+; Negative (12-Dec-16) 2)CARE BB+ (07-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	72.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (14-Dec-18)	1)CARE BB+; Negative (06-Oct-17)	1)CARE BB+; Negative (12-Dec-16) 2)CARE BB+ (07-Oct-16)
4.	Fund-based - ST-EPC/PSC	ST	78.00	CARE A3	-	1)CARE A3 (14-Dec-18)	1)CARE A4+ (06-Oct-17)	1)CARE A4+ (12-Dec-16) 2)CARE A4+ (07-Oct-16)
5.	Non-fund-based - ST-LC/BG/LOU (Letter of Undertaking) (Short term)	ST	32.00	CARE A3	-	1)CARE A3 (14-Dec-18)	1)CARE A4+ (06-Oct-17)	1)CARE A4+ (12-Dec-16) 2)CARE A4+ (07-Oct-16)
6.	Fund-based - LT-Proposed fund based limits	LT	45.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (14-Dec-18)	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
I. Adverse deviation in any of the following two ratios : a. Fixed Asset Coverage Ratio not less than 2% b. Total Secured Debt to EBITDA not exceeding 3x c. Total Debt to Tangible Net Worth not exceed 1x d. Debt Service Coverage Ratio not less than 1.15x	Will attract default interest at the rate of 2.00% p.a. over and above the Interest rate
<b>B. Non-financial covenants</b>	
I. Prepayment charges	Prepayment attracts prepayment penalty of 3% on the amount prepaid.
II. Non Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 15 <sup>th</sup> of consequent month, delay in submission will attract 1% (maximum 2%) penal interest over and above regular interest.
II. Non submission of CMA/Renewal data for the period beyond 1 month	Will attract 1% (maximum 2%) penal interest over and above regular interest.
III. Non submission of Financial Statement of previous year before 14 <sup>th</sup> Nov	Will attract 1% (maximum 2%) penal interest over and above regular interest.
III. Non availability of Balance with current account while recovering the interest and repayment of principal.	Will attract 4% interest over and above regular interest.

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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