November 27, 2023

# GRS Engineering Private Limited: Rating upgraded to [ICRA]BB+ (Stable)

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Fund-based – CC** | 15.50 | 15.50 | [ICRA]BB+ (Stable); Upgraded from [ICRA]BB (Stable) |
| **Long-term – Term Loan** | 9.00 | 9.00 | [ICRA]BB+ (Stable); Upgraded from [ICRA]BB (Stable) |
| **Long-term – Unallocated** | 1.50 | 1.50 | [ICRA]BB+ (Stable); Upgraded from [ICRA]BB (Stable) |
| **Total** | **26.00** | **26.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The upgrade in the rating outstanding on the bank lines of GRS Engineering Private Limited (GEPL/the company) takes into account its healthy growth in revenues in FY2023 and H1 FY2024, resulting in an improved financial profile and expected sustenance of the same going forward as well. GEPL reported operating income of Rs. 191.4 crore in FY2023 and Rs. 107.8 crore in H1 FY2024, resulting in YoY growth of 63.4% and 22.9%, respectively. The growth was primarily driven by healthy demand in medium and heavy commercial vehicles (M&HCVs) and construction equipment, and new businesses from existing and new customers. Part of the growth in FY2023 was also from better realisations stemming from commodity pass-through and higher value addition. The company has been able to add new customers and businesses periodically, and this, along with the ongoing capacity addition would support revenues and accruals, going forward.

The rating continues to positively factor in the company's established relationship with reputed tier-1 auto component/ construction equipment suppliers and periodic financial support extended by promoters in the form of unsecured loans and debentures. While GEPL does not require financial support from its promoters in the near to medium term, the promoters are committed to provide timely and adequate funding support going forward as well, should there be a need. However, the company has moderate debt protection metrics with interest coverage of 2.7 times and TOL/TNW of 3.6 times, as on March 31, 2023. Further, it has relatively moderate scale of operations, and faces high segment and customer concentration risks. Also, its margins are susceptible to commodity fluctuations, although GEPL's history of periodic pass-throughs to most customers, albeit with a lag, provides comfort to an extent.

## Key rating drivers and their description

### Credit strengths

**Established relationship with reputed tier-1 suppliers –** GEPL supplies brake spiders, timing/ transmission gears, suspension and steering parts, etc, for the M&HCV industry, and hydraulic cylinder parts, rollers and flanges, etc, for the construction equipment industry. Around 90% of its revenues are derived from the domestic market and the remaining come from exports, predominantly to the US and European markets. The company has a strong customer base, catering to reputed tier-1 suppliers such as Automotive Axles Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+) and Axles India Limited in the domestic M&HCV market, and Wipro Enterprises Private Limited in the construction equipment industry.

**Healthy growth in revenues in FY2023 and H1 FY2024 –** GEPL reported operating income of Rs. 191.4 crore in FY2023 and Rs. 107.8 crore in H1 FY2024, resulting in YoY growth of 63.4% and 22.9%, respectively. The growth was primarily driven by healthy demand in M&HCV and construction equipment segments, and new businesses from existing and new customers. Part of the growth in FY2023 was also from better realisations stemming from commodity pass-through and higher value addition.

The company has been able to add new customers and businesses periodically, and this, along with the ongoing capacity addition would support revenues and accruals, going forward.

**Periodic fund infusion in the form of unsecured loans from promoters –** The promoters, have been periodically infusing funds into the company by way of unsecured loans and debentures, including Rs. 3.0 crore in FY2023 and Rs. 9.0 crore in H1 FY2024. As on September 30, 2023, of GEPL's total debt of Rs. 79.7 crore, Rs. 50.0 crore was unsecured loans and debentures from the promoters. While GEPL does not require financial support from its promoters in the near to medium term, the promoters are committed to provide timely and adequate funding support going forward as well, should there be a need.

## Credit challenges

**Moderate scale of operations despite healthy revenue growth in the last few years; margins susceptible to fluctuations in raw material prices –** The company has moderate scale of operations with an operating income of Rs. 191.4 crore in FY2023 and Rs. 107.8 crore in H1 FY2024, which limits the benefits arising from economies of scale. This is despite healthy revenue growth in the last few years. Further, it is a relatively modest player in the highly competitive forging industry with pressure from larger players restricting its pricing flexibility. It also has relatively low market share with its customers because of its scale. Nonetheless, the established relationships with reputed tier-1 auto component suppliers support its revenues to an extent. GEPL's margins are susceptible to commodity fluctuations. However, its history of periodic pass-throughs to most customers, albeit with a lag, provide comfort to an extent.

**Vulnerability of revenues to industry cyclicality; high customer concentration risk –** GEPL continues to derive over 65% of its revenues from the M&HCV segment and over 20% from the construction equipment industry, which exposes it to the inherent cyclicality of these sectors. Further, the company derives around 60% of its revenues from its top two customers. This exposes the company to underperformance of these customers or loss of clients to competition. However, the risk is partially mitigated by the long-term association and business ties with its reputed and established clientele, and recent addition of new customers.

**Moderate debt protection metrics –**The company's debt protection metrics are moderate, with interest coverage of 2.7 times and TOL/TNW of 3.6 times as on March 31, 2023. The company also had a relatively low net worth of Rs. 30.9 crore as on September 30, 2023, given the relatively low accruals. ICRA expects the debt metrics to remain moderate over the medium term because of the debt-funded capex, albeit gradual improvement with better accruals.

## Liquidity position: Adequate

GEPL's liquidity is adequate supported by its business accruals and undrawn working capital lines of Rs. 16.3 crore as on September 30, 2023, against the sanctioned limit. The company's average fund-based utilisation was 51% of sanctioned limits for the August 2022–September 2023 period. Further, while financial support from the promoters is not required in the near to medium term owing to the healthy anticipated accruals, they remain committed to providing timely and adequate funding support, should there be a need. Against these sources of cash, the company has repayments of Rs. 3.9 crore for FY2024, Rs. 7.0 crore in FY2025 and Rs. 5.6 crore in FY2026, on its existing and sanctioned loans. It also has moderate capex plans of Rs. 25.0 crore in FY2024, primarily for capacity enhancement, apart from regular capex of Rs. 3.0 crore each in FY2025 and FY2026. Part of the FY2024 capex is likely to be debt-funded from sanctioned lines.

## Rating sensitivities

**Positive factors –** ICRA could consider a rating upgrade if the company is able to grow its revenues on a sustained basis, while maintaining its operating profit margins, resulting in improvement in debt protection metrics and liquidity position. Specific metrics that could lead to a rating upgrade include OPBDITA/Interest greater than 2.8 times, on a sustained basis.

**Negative factors –** Negative pressure could arise from deterioration in accruals, increase in debt levels resulting in weakening of debt metrices or lack of adequate and timely promoter support. Specific metrics that could lead to a rating downgrade include DSCR of less than 1.2 times, on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Auto Component Suppliers |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

GRS Engineering Private Limited is a tier-2 supplier engaged in forging and machining of components for the M&HCV (over 65% of revenues) and construction equipment (over 20% of revenues) segments. GEPL's clients include tier-I auto component suppliers such as Automotive Axles Limited and Axles India Limited, as well as construction equipment players like Wipro Enterprises Private Limited. While the company derives most of its revenues from the domestic market, it also exports forged parts for Wipro Enterprises Private Limited to countries across Asia, the America and Europe. In H1 FY2024, the company derived 55% of its revenues from rough forgings and 45% from machined components. The promoter, Mr. B Subraya Baliga, and his family hold the entire stake in the company. GEPL currently has manufacturing facilities in Mysore, Karnataka, with an installed production capacity of 18,000 metric tonnes (MT) per annum (would increase to 23,500 MT post completion of the ongoing capex).

### Key financial indicators (audited)

| Standalone | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 117.2 | 191.4 |
| **PAT** | 4.0 | 5.2 |
| **OPBDIT/OI** | 10.7% | 8.5% |
| **PAT/OI** | 3.4% | 2.7% |
| **Total outside liabilities/Tangible net worth (times)** | 3.9 | 3.6 |
| **Total debt/OPBDIT (times)** | 5.6 | 4.4 |
| **Interest coverage (times)** | 3.1 | 2.7 |

*Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.*

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

CARE Ratings vide its press release dated February 20, 2019, placed the rating of GRS Engineering Private Limited under the issuer not cooperating category. The rating continued to be in 'issuer not cooperating' as per the latest press release dated September 25, 2023. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information, which, however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of September 30, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Nov 27, 2023 | Sep 22, 2022 | Aug 06, 2021 | Jul 22, 2020 |
| 1 | **Cash credit** | Long term | 15.50 | - | **[ICRA]BB+ (Stable)** | **[ICRA]BB (Stable)** | **[ICRA]BB (Stable)** | **[ICRA]BB (Negative)** |
| 2 | **Term loan** | Long term | 9.00 | 6.09 | **[ICRA]BB+ (Stable)** | **[ICRA]BB (Stable)** | **[ICRA]BB (Stable)** | **[ICRA]BB (Negative)** |
| 3 | **Unallocated** | Long term | 1.50 | - | **[ICRA]BB+ (Stable)** | **[ICRA]BB (Stable)** | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long term – Fund based – CC | Simple |
| Long term – Term Loan | Simple |
| Long term – Unallocated | NA |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Cash credit | NA | 8.4% | NA | 15.50 | [ICRA]BB+ (Stable) |
| NA | Term loan | FY2019 | 4.0-8.2% | FY2027 | 9.00 | [ICRA]BB+ (Stable) |
| NA | Unallocated | NA | NA | NA | 1.50 | [ICRA]BB+ (Stable) |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis – Not applicable

## ANALYST CONTACTS


**Shamsher Dewan**
+91 124 4545 328
shamsherd@icraindia.com

**K Srikumar**
+91 44 4596 4318
ksrikumar@icraindia.com

**Vinutaa S**
+91 44 4596 4305
Vinutaa.s@icraindia.com

**Bikram Keshari Swar**
+91 44 4596 4311
bikram.swar@icraindia.com


## RELATIONSHIP CONTACT


**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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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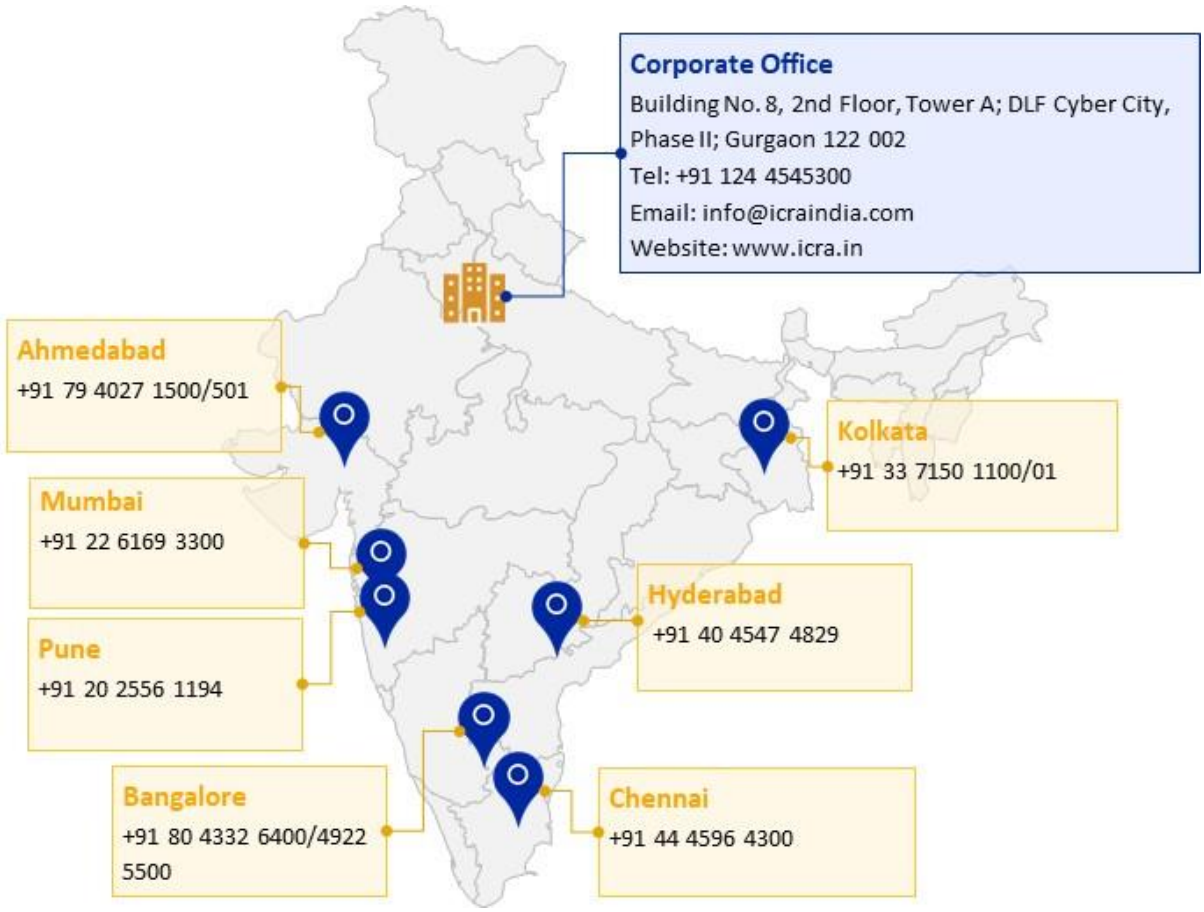
## ICRA Limited

### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches



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