

September 11, 2024

## G R Engineering Private Limited: [ICRA]BBB+ (Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	30.00	[ICRA]BBB+ (Stable); assigned
<b>Total</b>	<b>30.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The assigned rating favourably factors in the established position of G R Engineering Pvt Ltd (GREPL) as an engineering, procurement and construction (EPC) company and a fabricator for equipment/machinery in the capital goods sector, aided by national/international certifications and its approved vendor status for major customers. The rating considers the extensive experience of the promoters in heavy engineering for the process industries and a strong order book of ~Rs. 1,137.2 crore as on March 31, 2024, which lends healthy revenue visibility over the near to medium term. The rating also factors in the company's comfortable financial risk profile, supported by a healthy order inflow and its execution over the last couple of years.

The rating, however, is constrained by the high working capital intensity of the operations over the past few years as the order profile largely includes public sector undertakings (PSUs). ICRA expects the working capital intensity to remain elevated in the near to medium term. Additionally, the refinery/petrochemical business is dominated by select established public and private sector companies, leading to client concentration risk. At present, a single order from a customer comprises ~85% of the entire order book, thereby exposing the company's performance to project execution risk. Further, there is intense competition in the capital good sector from established domestic players due to the tender-driven nature of the business, which may impact GREPL's profitability.

The Stable outlook on the rating reflects ICRA's opinion that GREPL's credit profile will remain stable, going forward, supported by the its established track record which should enable it to maintain a healthy order book and ensure its timely execution, thereby aiding a healthy cash generation.

### Key rating drivers and their description

#### Credit strengths

**Demonstrated track record in EPC business** - GREPL is an established player in the fabrication industry with a track record of more than five decades. The company is promoted by Mr. R D Hariani, who has been leading the company since 1990. GREPL is on the approved vendor list for most large PSUs and private sector entities and also has national and international quality certifications. The company has executed several projects in the manufacturing and installation of process equipment in various refineries and petrochemical plants in India and overseas. This track record enables GREPL to pre-qualify for large-sized orders, strengthening its competitive edge.

**Reputed client profile** - The refinery/petrochemical industry is dominated by select established public sector and private sector companies having strong credit risk profiles. GREPL is able to mitigate the counterparty credit risk by selectively bidding for projects having strong sponsors, which are usually government-controlled companies.

**Healthy order book position** - GREPL had an order book of Rs 1,137.17 crore as on March 31, 2024 (~2.48 times of FY2024 operating income), providing healthy revenue visibility over the near to medium term. Besides, the company has a strong bid pipeline. The order book comprises contracts from large oil marketing and refinery companies with strong credit profiles. The

current order book is to be executed over the next 18-24 months. Given the track record of the company and the current bid pipeline, ICRA expects GREPL to maintain a healthy order book which should support the scale of operations, cash flow generation and the credit profile, going forward.

### Credit challenges

**Profitability exposed to volatility in raw material prices and highly competitive industry** - The company's contracts are usually fixed-price in nature with a long tenor of execution and, thus, its profitability remains exposed to raw material price volatility. However, the company tries to mitigate the raw material price risk by building in adequate contingencies during bidding for the contracts and also makes efforts to enter into back-to-back contracts with raw material suppliers, mainly for steel, shortly after a contract is awarded, thereby locking the raw material price for the tenor of the contract. GREPL faces intense competition from established well-known EPC players having substantially large scale of operations, besides the relatively smaller players. As the orders are awarded through the global tendering process, the competition is intense for these orders and can lead to pricing pressures.

**High working capital intensity due to elongated receivable cycle** - GREPL's receivable days, including the unbilled revenue, have remained elevated in the last few years, ranging from 159 days to 256 days at the end of FY2024. The company has high debtor days (256 days in FY2024), given the nature of its operations, supported to some extent by the high creditor days (386 days in FY2024) and customer advances. The company's inventory levels have been historically high owing to the lengthy order execution cycle, which entails multiple inspections at various stages of execution. The debtor days are high as the inspections certifying work completion usually happen towards the end of year. Nonetheless, as the customers of GREPL have strong credit profiles, the counterparty credit risk is eliminated to a maximum extent. However, any elongation in the receivable period or further inventory build-up may put further strain on the working capital profile, and hence, will remain a key monitorable.

**Exposure to sectoral and client concentration risk** - GREPL has high client and sectoral concentration risk with the top single customer accounting for ~85% of the order book and the entire order book catering to the refining/petrochemical sector. While the company has been bidding for tenders in other segments as well, the current order book remains concentrated towards the refining and petrochemical sector. As a result, the company's order inflows remain exposed to the cyclicity in the capex cycle of these sectors. Nonetheless, considering the Government's emphasis on capital expansion among Indian refineries, sectoral concentration is less likely to impact GREPL's order inflow in the near term.

### Liquidity position: Adequate

GREPL's liquidity profile is expected to remain adequate, supported by Rs. 5.37 crore of free cash and cash accruals in the range of Rs. 35-45 crore per annum over the course of next three years. This, along with the available cushion in the fund-based working capital limits, should enable the company to meet its working capital requirements. The company is undertaking a capex plan of Rs. 40 crore for which it has already tied up the term loans. Thus, the overall liquidity position is expected to remain adequate.

### Rating sensitivities

**Positive factors** – A material increase in the order book position and execution of the same thereby resulting in a sustained improvement in the profitability, leverage and coverage indicators along with liquidity may lead to a rating upgrade.

**Negative factors** – A slower than expected execution of the order book and/or slower inflow of incremental orders resulting in a moderation in the scale of operations on a sustained basis may result in a rating downgrade. Higher than expected working capital intensity and/or higher than expected debt funded capex resulting in moderation in the liquidity position may result in a rating downgrade. A specific credit metric of interest coverage ratio remaining below 3.0x on a sustained basis may result in a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

G. R. Engineering Private Limited (GREPL) is the flagship company of the G. R. Group and is engaged in the heavy engineering, procurement and construction of custom-made equipment for process industries, which primarily includes refineries and petrochemicals and fertilisers. The clientele of GREPL includes public sector refineries such as IOCL, BPCL, HPCL, MRPL, NRL and joint sector projects like HMEL, RIL etc. The company started its operations by setting up a fabrication unit at Andheri (Mumbai) under the name G. R. Engineering Works Ltd. in 1967. Subsequently, the company shifted its fabrication base to Tarapur MIDC in 1987. The unit at Tarapur MIDC is a modern workshop equipped with the latest machinery.

Apart from the Tarapur unit, GREPL has acquired an additional ~17-acre land at Vengani (GIDC, Dahej) where it plans to build another fabrication unit as this land parcel is located on the river front. The company manufactures large oversized, over-dimensional equipment, and thus has to bear significant transportation cost. As the proposed fabrication shop will be on the waterfront, transportation by inland vessels/barges will save both time and cost.

Till April 2008, both the non-engineering and engineering businesses were housed under G.R. Engineering Works Limited. Subsequently, as part of an organisational restructuring, the engineering business was demerged from the non-engineering vertical with effect from May 1, 2008. The core heavy engineering business was shifted to GREPL, with other non-engineering activities (mainly real estate business) moved to GREW Industries Limited (Group entity).

## Key financial indicators (audited)

	FY2023	FY2024
Operating income	426.8	461.8
PAT	23.0	31.2
OPBDITA/OI	12.5%	9.1%
PAT/OI	5.4%	6.8%
Total outside liabilities/Tangible net worth (times)	1.9	1.7
Total debt/OPBDITA (times)	3.1	3.0
Interest coverage (times)	3.5	3.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation

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

India Ratings has continued the ratings of GREPL in the 'Issuer not cooperating' category vide its press release dated May 15, 2024, due to non-submission of the relevant information.

CRISIL Ratings has continued the ratings of GREPL in the 'Issuer not cooperating' category vide its press release dated December 27, 2023, due to non-submission of the relevant information.

**Any other information: None**

### Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long Term	30.00	Sep 11, 2024	[ICRA]BBB+ (Stable)	-	-	-	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple

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	Term loan	April 2024	EBTL+2.25%	FY2030	30.00	[ICRA]BBB+ (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

**Girishkumar Kadam**

+91 22 6114 3441

[girishkumar@icraindia.com](mailto:girishkumar@icraindia.com)

**Prashant Vasisht**

+91 124 4545 322

[prashant.vasisht@icraindia.com](mailto:prashant.vasisht@icraindia.com)

**Varun Gogia**

+91 98 7115 6542

[varun.gogia1@icraindia.com](mailto:varun.gogia1@icraindia.com)

**Abhijit Nadkarni**

+91 70 4530 9908

[abhijit.nadkarni@icraindia.com](mailto:abhijit.nadkarni@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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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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For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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