

June 21, 2024

Gypsum Structural India Private Limited: Long-term rating reaffirmed; long-term/ short-term rating assigned for the enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	30.00	40.00	[ICRA]BBB+ (Stable); reaffirmed and assigned for the enhanced amount
Short-term – Non-fund based – Bank guarantee	0.00	250.00	[ICRA]A2; assigned
Total	30.00	290.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings for Gypsum Structural India Private Limited (GSIPL) takes comfort from the extensive experience of its promoters in the engineering procurement and construction (EPC) segment, its established track record in executing water and sewerage projects in metropolitan cities, oil and gas pipeline projects for hydrocarbon, and a comfortable order book (OB) of 4.9 times of operating income (OI) in FY2024 (as of March 2024). The ratings consider the healthy revenue visibility and financial profile with low leverage (TOL/TNW of 0.6 times) and robust coverage metrics with interest coverage of over 17 times. The company majorly deals in niche segments like microtunneling and rehabilitation projects where the competition is relatively moderate (compared to road/railway projects), thereby supporting its profitability. Given the in-house survey team, technicians, consultants and engineers for execution of the projects, the company's operating margins have remained healthy at ~30% level over the last two years. While operating margins are expected to moderate over the medium to long-term with likely increase in competition, the leverage and coverage metrics are expected to remain strong with TOL/TNW likely to remain below 1.0 times and interest cover above 10.0 times. The ratings are also supported by GSIPL's established relationships with a reputed customer base, which includes Municipal Corporation of Greater Mumbai, Ahmedabad Municipal Corporation, etc.

The ratings are, however, constrained by the company's modest scale of operations, high working capital intensity of 41.9%, and project concentration risk with top-three orders contributing to ~45% of the unexecuted order book as on March 31, 2024. Given the company's presence in niche segments, the scale of operations remains modest and segment concentration remains high with water and sewerage projects contributing ~86% of the order book as on March 31, 2024. Moreover, the working capital intensity remains high at ~40%, primarily on account of milestone billing and sizeable unbilled revenue. Any major delay or a dispute related to the unbilled revenue could adversely impact the company's revenue and working capital cycle. The promoters have up-streamed cash to the tune of Rs. 46.9 crore in FY2022 and FY2023 through share buyback, which has restricted improvement in net worth and necessitated reliance on promoter funding to support its increasing working capital requirement in the interim. Any large dividend outflow or share buyback, which could adversely impact liquidity of the company will be a credit negative and remains a key monitorable. Given the expected increase in scale of operations over the medium term, the company's ability to judiciously manage its working capital cycle remains crucial from the credit perspective. Also, GSIPL's ability to enhance its working capital lines, especially non fund-based limits, remains crucial to bid for new orders.

About 40% of the outstanding order book is related to overseas projects, in Iraq and Bangladesh, thereby exposing the company to geopolitical and price exchange risks. ICRA notes that GSIPL participates only in those overseas projects which are funded by multilateral/bilateral funding agencies, and hence the working capital cycle is expected to remain lean in those projects, though the execution risk will remain high due to a challenging operating environment. The ratings are constrained by the absence of price-variation clause in a few contracts, which exposes its operating margin to cost escalation risk. Moreover, given the complexity of the projects, timely completion of the project within time and stipulated cost remains crucial to sustain margins. The ratings note the competition in the construction sector, which could put pressure on the new

order inflows and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the ratings reflect ICRA's expectations that GSIPL would likely sustain its low leverage and comfortable coverage metrics, driven by healthy ramp-up in execution and continued strong order inflows.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in EPC segment – The management has extensive experience and technology-specific expertise of ~20-25 years in execution of EPC projects involving installation of new pipelines by technologies such as microtunneling/HDD and rehabilitation of existing pipelines by lining technologies, necessary for bids qualification and obtaining repeat orders from the reputed clients including municipalities and other Government agencies in India and Bangladesh.

Sizeable order book providing healthy revenue visibility – GSIPL's existing unexecuted order book stood at 4.9 times of OI in FY2024 (as on March 31, 2024), to be executed over the next two to three years, which provides healthy revenue visibility. As on May 31, 2024, the company is executing several projects in India, Bangladesh, and a single project in Iraq, though ramp-up in execution remains crucial as most of these projects are in nascent stages of execution (less than 20% executed). The company is expected to achieve the revenue of ~Rs. 500 crore in FY2025 with operating margins of over 25%. ICRA notes that GSIPL participates only in those overseas projects which are funded by the multilateral/bilateral funding agencies. Hence, the working capital cycle is expected to remain lean in those projects, though the execution risk will remain high due to a challenging operating environment.

Comfortable financial risk profile characterised by healthy operating margins, low leverage and comfortable debt coverage metrics – The company reported a comfortable financial risk profile, characterised by low leverage with TOL/TNW of 0.6 times as on March 31, 2024 (Provisional) and strong coverage indicators with interest coverage and DSCR at 17.6 times and 6.8 times, respectively, in FY2024. Given the limited competition in its segment of operations, GSIPL's operating margin has remained healthy above 25% in the recent years and is expected to sustain at the same level in FY2025 as well. While the operating margin is expected to moderate over the medium to long-term with increase in competition, the leverage and coverage metrics are expected to remain strong with TOL/TNW likely to remain below 1.0 times and interest cover above 10.0 times over the medium term.

Credit challenges

Modest scale of operations and high working capital intensity – GSIPL's scale remains modest on account of limited projects in the sector due to high technology cost. Additionally, the company bids for the projects based on its own profitability targets and terms, thereby limiting its scope. Moreover, the working capital intensity remains high at 41.9%, primarily on account of milestone billing and sizeable unbilled revenue. Due to this, GSIPL's inventory cycle remains elongated at 173 days in FY2024. Given the expected increase in scale of operations over the medium term, the company's ability to judiciously manage its working capital cycle remains crucial from the credit perspective.

Exposed to execution risk given sizeable share of projects in nascent stage – In FY2024, the company received several new projects, which improved its order book. As of March 2024, majority (80%) of these projects were in the nascent stage (less than 20% executed), which exposes the company to execution risk of completion of projects on time and within the budgeted cost. Also, the company is undertaking few projects in Bangladesh and Iraq, which exposes it to risks of challenging terrain, climatic conditions, geopolitical environment, etc.

Profitability vulnerable to competition and volatility in input costs – GSIPL's margins were high in the past three years due to its expertise in related technologies along with limited competition. However, the company's margin is expected to gradually

decline with expected increase in competition. Further, the absence of price-variation clause in a few contracts (hydrocarbon projects with 1-1.5 years tenor), exposes its operating margin to cost escalation risk. In overseas projects, the company's profitability is exposed to forex risk in the absence of any formal hedging policy.

Liquidity Position – Adequate

The company's liquidity is adequate, supported by buffer in working capital limit of ~Rs. 4.4 crore and unencumbered cash balance of ~Rs. 11 crore as on May 31, 2024. GSIPL is expected to report cash accruals of more than Rs. 50.0 crore annually, compared to the annual debt service obligations of ~Rs. 12.0 crore.

Rating sensitivities

Positive factors – The ratings could be upgraded, if there is any significant scale up in revenues while maintaining profitability, adequate liquidity and robust debt protection metrics.

Negative factors – The ratings could be downgraded, if there is a slowdown in order execution or weakening of earnings or elongation in cash conversion cycle adversely affects its liquidity profile/ debt protection metrics. Any significant debt-funded capex could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

GSIPL, incorporated in 1993, was established by Mr. Niranjan Garg (founding Director, civil & mechanical engineer), who manages the company's operations, along with his two sons (Mr. Sunir Garg, Mr. Deepanshu Garg) and a team of professionals. GSIPL majorly deals in execution of EPC projects, which involve installation of new pipelines using technologies such as microtunneling and HDD and rehabilitation of old existing pipelines by lining technologies where the company has a competitive advantage with limited players. GSIPL undertakes water and sewerage projects in metropolitan cities, which contribute more than 85% of the order book along with a few projects in the oil and gas sector, which primarily involves laying of new pipelines.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	225.9	260.7	274.3
PAT	40.6	48.2	60.4
OPBDIT/OI	28.1%	27.1%	33.4%
PAT/OI	18.0%	18.5%	22.0%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	0.6
Total debt/OPBDIT (times)	0.4	0.6	0.6
Interest coverage (times)	22.1	25.4	17.6

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore; *Provisional financials

Source: Company; ICRA Research

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CRISIL Ratings	CRISIL B+ /Stable (ISSUER NOT COOPERATING)/ CRISIL A4 (ISSUER NOT COOPERATING)	June 28, 2023
INDIA Ratings	IND BB- (ISSUER NOT COOPERATING) / IND A4+ (ISSUER NOT COOPERATING)	Jun 01, 2018

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2025)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating in FY2025		Date and Rating in		
				June 21, 2024	June 12, 2024	FY2024	FY2023	FY2022
1 Fund-based – Cash credit	Long-term	40.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
2 Non-fund based – Bank guarantee	Short-term	250.00	-	[ICRA]A2	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Short-term – Non-fund based – Bank guarantee	Very 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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based – Cash Credit	NA	NA	NA	40.00	[ICRA]BBB+ (Stable)
NA	Short-term – Non-fund based – Bank guarantee	NA	NA	NA	250.00	[ICRA]A2

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

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