

November 28, 2024

Geco Special Machiners: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term –Fund based-Term loan	3.00	3.00	[ICRA]BB (Stable); reaffirmed
Long term –Fund based/Cash credit	4.00	4.00	[ICRA]BB (Stable); reaffirmed
Short term –Non-fund based/Bank guarantee	0.90	0.90	[ICRA]A4; reaffirmed
Long term/Short term – Unallocated	17.60	17.60	[ICRA]BB (Stable)/ [ICRA]A4; reaffirmed
Total	25.50	25.50	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings factors in Geco Special Machiners' (GSM) extensive track record of over 30 years in the component manufacturing industry, which has resulted in established relationships with its clients and suppliers. The ratings also factor in GSM's reputed clients, such as Baker Hughes and Emerson etc., which ensure low counterparty credit risk.

The ratings are, however, constrained by the firm's small scale of operations and its modest financial risk profile, characterised by a small net worth base and relatively high gearing levels. The ratings are further constrained by intense competition in the industry, marked by the presence of organised and unorganised players. Moreover, being a partnership firm, GSM's credit profile is exposed to the risk of capital withdrawals.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the firm will continue to benefit from its established track record in the component manufacturing industry and a reputed clientele to result in stable order inflows, and the credit profile is likely to be supported by fund infusion from promoters as and when needed.

Key rating drivers and their description

Credit strengths

Extensive track record in engineering and metal component manufacturing – GSM was founded by Mr. S. A. Muthuswamy in 1977. He has more than 30 years of experience in the component manufacturing industry, and hence the company has an established relationship with its suppliers and customers. This has helped the firm get repeat orders from its customers, while maintaining healthy operating profit margins over the years.

Established customer base – The firm has established relationship with reputed clients such as Emerson, Baker Hughes to name a few. The firm had previously catered to orders from the Tamil Nadu government. Its reputed customer base results in low counterparty credit risk.

Credit challenges

Small scale of operations – The firm’s scale of operations continues to be small, marked by a revenue of Rs. 40.36 crore in FY2024 against Rs. 36.71 crore in FY2023. The firm stopped bidding for Government tenders owing to the stretch in receivables from the Government departments, though this has improved its working capital cycle. The small revenue base coupled with the customer concentration exposes the company to the risk of business downturns and affects its ability to absorb any temporary disruption and fixed costs.

Modest financial risk profile – The firm’s financial risk profile remains modest, marked by a leveraged capital structure with a small net worth base of Rs. 21.4 crore, and a gearing of 1.1 times as on March 31, 2024, against 1.3 times as on March 31, 2023. Also, the coverage indicators remain average as reflected in DSCR of 1.6 times and TD/OPBITDA of 3.3 times in FY2024. GSM incurred a debt-funded capex of around Rs. 18 crore over FY2023-FY2024, increasing the overall debt levels. The firm’s coverage indicators are expected to remain moderate in the near term with an estimated DSCR of 1.5 times in FY2025.

High competition - The competition in the industry remains high due to the presence of reputed larger players and unorganized smaller players, depending on the type of the components.

Liquidity position: Stretched

The company’s liquidity position is stretched with limited cushion in working capital lines against the sanctioned limit of Rs. 6.00 crore. The average working capital limit utilisation remained high at ~81% over the 12-month period of April 2023 to March 2024.

Rating sensitivities

Positive factors – ICRA could upgrade GSM’s ratings if the firm’s scale of operations improves with the diversification of its customer base, thereby lending stability to the earnings and improving its liquidity position.

Negative factors – GSM’s ratings could be downgraded if a low order inflow dents its revenues and profitability, leading to weak coverage indicators. A significant increase in the working capital intensity, or a large debt-funded capex, or significant capital withdrawal, leading to a deterioration in the liquidity position could also lead to a downgrade. A specific credit metric for downgrade would be DSCR of less than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the entity.

About the company

Incorporated in 1977 by Mr. S.A. Muthuswamy, Geco Special Machiners (GSM) was initially started as a small manufacturing unit producing stone crushers. Post that, GSM was involved in special super finishing machines for grinding and honing and manufacturing and servicing of hydraulic cylinders, pneumatic cylinders, earth moving equipment spares and textile machinery. The firm has developed into a Group of five divisions, adding processes for the machining and grinding of valves and valve components for the export market. Geco Special Machiners manufactures trim parts for oil and gas, shafts for industrial pumps, machined components for valve products and components for hydraulic and pneumatic cylinders.

It has reputed client base including GE Oil and Gas India Pvt. Ltd., Toshiba Machine Chennai Pvt. Ltd., Flowserve India Controls Pvt Ltd., from Chennai, Bengaluru, Coimbatore among others who have been associated with the firm for over a decade. Over and above, the firm started participating in government works and won successive work orders from Tamil Nadu Rural Development Agency for supply of machined components for garbage containers under Swachh Bharat Recycle Mission project for several districts of Tamil Nadu. The firm has a manufacturing unit in Singanallur, Coimbatore (Tamil Nadu).

Key financial indicators (audited)

GSM Consolidated	FY2023	FY2024
Operating income	36.7	40.4
PAT	1.7	1.3
OPBDIT/OI	16.3%	17.0%
PAT/OI	4.7%	3.2%
Total outside liabilities/Tangible net worth (times)	2.0	1.6
Total debt/OPBDIT (times)	3.5	3.3
Interest coverage (times)	4.2	3.3

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

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	November 28, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based - Term loans	Long term	3.00	[ICRA]BB (Stable)	August 28,2023	[ICRA]BB (Stable)	May 31,2022	[ICRA]BB (Stable)	-	-
Fund based - Cash credit	Long term	4.00	[ICRA]BB (Stable)	August 28,2023	[ICRA]BB (Stable)	May 31,2022	[ICRA]BB (Stable)	-	-
Non-fund based/Bank Guarantee	Short term	0.90	[ICRA]A4	August 28,2023	[ICRA]A4	May 31,2022	[ICRA]A4	-	-
Unallocated	Long term/ Short term	17.60	[ICRA]BB (Stable)/ [ICRA]A4	August 28,2023	[ICRA]BB (Stable)/ [ICRA]A4	May 31,2022	[ICRA]BB (Stable)/ [ICRA]A4	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash credit	Simple

Short term- non-fund based/Bank Guarantee	Very Simple
Long term/ Short term - Unallocated	Not Applicable

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	Fund based - Term loans	FY2019	NA	FY2025	3.00	[ICRA]BB (Stable)
NA	Fund based - Cash credit	NA	NA	NA	4.00	[ICRA]BB (Stable)
NA	Non-fund based/Bank Guarantee	NA	NA	NA	0.90	[ICRA]A4
NA	Unallocated	NA	NA	NA	17.60	[ICRA]BB (Stable)/ [ICRA]A4

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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