

May 04, 2017

GMW Private Limited

Summary of Rated Instruments

| Instrument* | Rated Amount (in crore) | Rating Action |
|---|--|---|
| Long Term -Term Loans | Rs 3.15 crore (reduced from Rs.6.40 crore) | Revised to [ICRA]BB(Stable) from [ICRA]BB+ (Negative) |
| Long Term Fund based - Cash Credit | Rs 17.00 crore (enhanced from Rs.15.00 crore) | Revised to [ICRA]BB(Stable) from [ICRA]BB+ (Negative) |
| Short Term Fund based and Non Fund Based facilities | Rs 68.14 crore (enhanced from Rs 67.60 crore) | Revised to [ICRA]A4 from [ICRA]A4+ |
| Long Term/ Short Term Unallocated | Rs.6.71 crore (earlier nil) | [ICRA]BB (Stable)/ [ICRA]A4 Revised from [ICRA]BB+ (Negative) [ICRA]A4+ |

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has revised the long term rating assigned to the Rs 3.15 crore¹ (reduced from Rs. 6.40 crore) term loans and Rs 17.00 crore (enhanced from Rs.15.00 crore) cash credit facilities of GMW Private Limited (GMW)² to [ICRA]BB (pronounced as ICRA double B) from [ICRA]BB+ (pronounced ICRA double B plus). ICRA has also revised the short term rating assigned to the Rs 68.14 crore (enhanced from Rs.67.60 crore) fund based and non fund based facilities of GMW to [ICRA]A4 (pronounced ICRA A four) from [ICRA]A4+ (pronounced ICRA A four plus). ICRA has further also revised long-term rating to [ICRA]BB (pronounced as ICRA B) and short-term rating to [ICRA]A4 (pronounced as A four) to Rs 6.71-crore proposed unallocated limit of GMW. The outlook on the long term rating has been revised to 'Stable' from 'Negative'.

Rationale

The revision in the ratings factors in a sharp decline in operating income over the last two years and a significant increase in the working capital intensity. The ratings continue to remain constrained by the intense competitive pressures from other established local players, and exposure to commodity price risks in case of fixed-price based contracts. Further, GMW remains exposed to high off-balance sheet exposure due to submission of bid-bond, performance and other guarantees and high reliance on mobilization advances. ICRA also notes that GMW along with its group company (GMW Engineers Private Limited) plans to be the promoter & developer of a hydro project through a separate SPV and thus would remain exposed to execution, regulatory as well as funding risks.

The ratings however continue to positively factor in the company's long track record and fairly established position in execution of hydro-mechanical equipments for hydro power projects, its reputed clientele profile, strong order book position and the moderate outlook for the investments in hydro & thermal power sector. The ratings also take into account the financial profile characterised by satisfactory gearing levels and debt servicing indicators.

¹ 100 lakhs = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Key rating drivers

Credit Strengths

- Experienced and qualified management and good track record in execution of past projects
- Relatively large player in executing hydro-mechanical works for irrigation dams & hydro power
- High barriers to entry as a result of stringent technical and financial qualification criteria for the bidders
- Low counterparty risk due to reputed clients and a diversified client base; strong pending order-book position (11.95x of FY2016 revenues) as on March 2017
- Moderate profitability, although gearing continues to remain satisfactory

Credit Weakness

- Modest scale of operations; limited progress on key projects has resulted in a sharp decline in operating income during FY2016 & 9MFY2017
- Weakening of liquidity position due to stretched receivables
- Intense competitive pressures from several local players as well as from an established peer group
- Project execution risks associated with most of the projects
- While the company's profitability is protected from any unfavorable variations in key raw material prices through the price variation clauses in most of its contracts, it remains vulnerable in case of actual usage of raw materials is higher than the allowed levels
- High off balance sheet exposure (bank guarantees of Rs. 44.84 crores as on March 31, 2016)
- Reliance on mobilization advances and security deposits from sub-contractors to fund the working capital requirements; any slowdown in such receipts may further increase GMW's existing high reliance on bank borrowings and stretch the liquidity profile
- Large capex plan in the JV company though currently at nascent stage of operation

Description of key rating drivers highlighted above:

The revision in the ratings factors in a sharp decline in operating income from Rs.92.16 crore in FY15 to Rs.52.04 crore in FY16. Operating income was reported at Rs.34.46 crore during 9MFY17, which is reflective of slow progress on projects, some of which are currently stalled. The ratings are further constrained by the significant increase in the working capital intensity (increase in NWC/OI from 13% in FY15 to 31% in FY16 and further to 49% in 9MFY17) due to delays in receiving payments from customers, that has adversely affected the cash flows of the company, although during the current fiscal there has been release of retention money on some of the projects.

The ratings continue to remain constrained by the intense competitive pressures from other established local players, and exposure to commodity price risks in case of fixed-price based contracts. Further, GMW remains exposed to high off balance sheet (totaling Rs.44.84 crore as on March 31, 2016) exposure due to submission of bid-bond, performance and other guarantees and high reliance on mobilization advances from clients, security deposits from sub-contractors and extended credit period from suppliers to fund the working capital requirements.

ICRA also notes that GMW along with its group company (GMW Engineers Private Limited plans to be the promoter & developer of a hydro project through a separate SPV (Keezharkuthu Power Private Limited) and thus would remain exposed to execution, regulatory as well as funding risks, given the relatively large size of the project. KPPL has secured an order for developing a 19.8 MW hydro power plant project in Kerala from Kerala State Electricity Board on BOOT basis for a period of 30 years. The project will be located on Kambar stream, a tributary of Kaliyar river in Muvattupuzha basin in Idukki district though forest clearance is still awaited. The total project cost will be ~ Rs. 148 crore and the

scheduled commissioning timeline is 36-48 months. The project would be funded in a debt:equity ratio of 70:30 and GMW would hold 75% equity in the project while rest 25% will be held by GMW Engineers Private Limited. While the project is currently in nascent stages, any substantial financial support provided by the company in the form of higher than expected equity, loans or advances that materially impact its financial risk profile would remain a key rating sensitivity.

The ratings however continue to positively factor in the company's long track record and fairly established position of in execution of hydro-mechanical equipments for hydro power projects, its reputed clientele profile which includes Bharat Heavy Electricals Limited and various state electricity boards like Tamil Nadu Electricity Board (TNEB), Andhra Pradesh Power Generation Corporation Limited (APGENCO) & Karnataka Power Corporation Limited (KPCL) and private customers like Larsen & Toubro Limited, Gammon India Limited (GIL) and Kirloskar Brothers Limited (KBL). The ratings also takes into account the strong order book position, which stood at ~Rs.622 crore as in March 2017 (vis-à-vis an unexecuted order book position of Rs.302 crore (3.28 times of revenue in FY2015) in October 2015. The pending order book is to be executed over the period of next 15-30 months, reflecting moderate execution risk. Major orders to be executed by the company currently include Fabrication and Erection of Structural Steel Works, design and supply of gates and hoists for Larsen & Toubro Uttaranchal Hydropower Ltd. at Singoli Bhatwari as well as Lata Tapovan Hydro Project, fabrication and supply of hydro mechanical equipment to Simplex Infrastructures Limited for a hydro project being set up at Rammam, West Bengal, export order for supply and erection of intake & service gates for Farab International in Sri Lanka, supply of penstock pipes & accessories for Kerala State Electricity Board and SEW Infrastructure Limited and a recent order for fabrication and erection of structural steel works for the expansion of a thermal power plant at Wanakbori Gujarat.

The ratings also take into account the financial profile characterised by satisfactory gearing levels of 0.48 times as on March 31, 2016. Gearing levels have further moderated to 0.44 times as on December 31, 2016. TOL/TNW continues to remain at moderately high levels of 1.51 times as on December 31, 2016 vis-à-vis 1.71 times as on March 31, 2016.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the Company:

GMW Private Limited (erstwhile General Mechanical Works Private Limited) (GMW) was established in the year 1978 and is engaged in providing engineering services and hydro-mechanical packages (i.e. water screens and raking system) for projects related to power sector (mainly for hydro power projects), water treatment, irrigation, refineries etc. The name of the company was changed to its present name in June 2014. GMW is also engaged in design, supply & installation of steel structures, storage tanks, fuel oil handling and piping systems, fire fighting systems, hydraulic steel structures etc. The company has been promoted by Mr. Onkar Singh, Mr. Pritam Singh, Mr. Sarwan Singh, Mr. Balbir Singh and other family members. The Singh family has also promoted another concern, GMW Engineers Private Limited which is also engaged in similar line of business and the two entities are together referred as the GMW group.

During FY16, GMW Private Limited reported operating income of Rs. 52.04 crore and profit after tax of Rs. 2.12 crore as against an operating income of Rs. 92.16 crore and profit after tax of Rs. 1.84 crore

during FY15. During 9MFY 2017, the company has reported an operating income of Rs. 34.46 crores and a profit after tax of Rs. 2.37 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

| S.No | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | | |
|------|---|----------------|---------------------------|-----------------------------|---|--------------------------------|--------------------------------|
| | | Type | Rated amount (Rs. Crores) | Month-year & Rating | Month- year & Rating in FY2016 | Month- year & Rating in FY2015 | Month- year & Rating in FY2014 |
| | | | | May 2017 | March 2016 | December 2014 | December 2013 |
| 1 | Long Term -Term Loans | Long Term | 3.15 | [ICRA]BB (Stable) | [ICRA]BB+ (Negative) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) |
| 2 | Long Term Fund based - Cash Credit | Long Term | 17.00 | [ICRA]BB (Stable) | [ICRA]BB+ (Negative) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) |
| 3 | Short Term Fund based and Non Fund Based facilities | Short Term | 68.14 | [ICRA]A4 | [ICRA]A4+ | [ICRA]A3+ | [ICRA]A3+ |
| 4 | Long Term/ Short Term Unallocated | Short Term | 6.71 | [ICRA] BB (Stable)/[ICRA]A4 | - | - | - |

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

| Name of the instrument | Date of issuance | Coupon rate | Maturity Date | Size of the issue (Rs. Cr) | Current Rating and Outlook |
|---|-------------------------|--------------------|----------------------|-----------------------------------|-----------------------------------|
| Long Term - Term Loans | - | - | FY2018 | 3.15 | [ICRA] BB (Stable) |
| Long Term Fund based - Cash Credit | - | - | - | 17.00 | [ICRA] BB (Stable) |
| Short Term Fund based and Non Fund Based facilities | - | - | - | 68.14 | [ICRA] A4 |
| Long Term/ Short Term Unallocated | - | - | - | 6.71 | [ICRA] BB (Stable)/[ICRA]A4 |

Source: GMW Private Limited



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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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