

June 25, 2020

## GWASF Quality Castings Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	6.40	6.40	[ICRA]B+(Stable); reaffirmed
Fund-based - Term Loan	1.10	2.70	[ICRA]B+(Stable); reaffirmed
Unallocated Limits	2.00	0.40	[ICRA]B+(Stable); reaffirmed
<b>Total</b>	<b>9.50</b>	<b>9.50</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to factor in GWASF Quality Castings Private Limited's (GWASF) small scale of operations with a decline in its revenue and profitability in FY2020 following weak domestic demand from end-user process industries. The revenues and profitability remain exposed to raw material price and forex fluctuations. The rating remains constrained by the high working capital intensive nature of operation due to elongated debtor levels. Further, in FY2020 with increase in working capital intensity and lower than expected cash accruals, the company's liquidity position has remained stretched rendering it highly dependent on working capital limits. The rating continues to factor in the company's high customer concentration and intensely competitive nature of the industry, which limit bargaining power as well as its pricing flexibility though partly mitigated by long standing customer relationships. Notwithstanding the above risk, the rating continues to derive comfort from the extensive experience of the company's promoters and the established track record of the company in the steel-casting industry. Further, established relationship with reputed customers and the preferred supplier agreement with Flowserve Corporation with annual off-take arrangement, which support its business prospects. The rating also takes into account the comfortable debt profile of the company with low gearing and moderate coverage indicators.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of the promoters in the casting industry** – Established in 1988, GWASF's promoters have over three decades of experience in the steel-casting industry. Over the years, the company has received various certifications has developed capabilities mainly to cater to the requirements of valve and pump manufacturers.

**Preferred vendor status and yearly off-take arrangement with Flowserve Corporation** – GWASF is the preferred vendor for Flowserve Corporation, one of the leading manufacturers and suppliers of pumps, valves and components to process industries (power, oil, gas, chemical etc.) all over the world. GWASF has a three-year preferred supplier agreement with this client and has been receiving steady business over the last decade. However, the company's ability to receive healthy business in FY2021 in the backdrop of the Covid-19 outbreak remains to be seen.

**Comfortable capital structure and coverage indicators** – With a revenue decline in FY2020, the company's funding requirements were lower resulting in low debt. Consequently, GWASF's gearing continued to improve as reflected by 0.54 times as on January 31, 2020 (10M FY2020 provisional results shared by the company), better than 0.78 times as on March 31, 2019. In absence of any long term repayment obligations, the company's debt coverage indicators remained

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healthy with interest coverage of 6.63 times, DSCR of 3.74 times and Total Debt/OPBITDA of 1.76 times in 10M FY2020, though impacted by lower profitability when compared to 7.97 times, 4.16 times and 1.55 times, respectively in FY2019.

## Credit challenges

**Small scale of operations** – GWASF's scale of operation is small with the revenue of Rs. 19.51 crore in FY2020 declined from Rs. 22.10 crore in FY2019. Reduced order inflow following weak demand from the end-user industries in FY2020 and further expected in FY2021 in backdrop of Covid-19 remains a concern. The small scale of operations and low net worth (Rs 10.07 in 10MFY2020) restricts its operational and financial flexibility.

**High customer concentration risk** – GWASF derived more than 70% of the revenue from Flowserve Corporation, thereby, exposing the company to customer concentration risk. ICRA notes that the company has established healthy relationships with other customers which lends some comfort.

**Margins exposed to raw-material price fluctuations and forex risks** – The company's revenues and margins are vulnerable to price fluctuations as well as product mix. With high inventory holding requirements due to long execution period, the company's profitability can fluctuate in line with raw-material prices, however it makes efforts to carry out procurement based on existing orders. With around 60% of its revenues derived from exports, the profitability is also exposed to foreign exchange fluctuation risks. Given that the bank borrowings are foreign currency denominated, there is partial natural hedge available for the receivables.

## Liquidity position: Stretched

GWASF's working capital intensity remained high in 10MFY2020 owing to elongated debtor levels. Even though the company's cashflow from operations remained positive, it remained dependent on its working capital limits. GWASF's utilisation remained high at 90% against the drawing power leading to limited cushion. ICRA also notes that the company has reported Rs. 0.86-crore outstanding term loan as on March 31, 2020 which is scheduled to be fully repaid in next two fiscals. The company has also availed moratorium under RBI's Covid-19 scheme. In this backdrop, the liquidity position is likely to remain **stretched**.

## Rating sensitivities

**Positive triggers** – ICRA may upgrade GWASF's ratings if there is a significant improvement in the scale of operations while sustaining profitability and debt coverage. Additionally, an improvement in working capital intensity leading to improved liquidity position on a sustained basis could lead to a positive trigger.

**Negative triggers** – Pressure on GWASF's ratings may arise if there is a decline in scale due to a delay in the project execution. Also, negative triggers can be due to increase in working capital intensity which would impact the liquidity position of the company. Specific credit metrics that could lead to a downgrade of GWASF's rating could be If the TOL/TNW increases beyond 3.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on standalone financials of the company

## About the company

Established in 1988, GWASF Quality Castings Private Limited manufactures steel and ferrous alloy castings for valves, pumps etc. It was started by Mr. Gautham Krishnan, who has over three decades of experience in the castings industry. The company's manufacturing facility is in Mangalore with an installed capacity of 720 MT per annum. The company started exporting its products to the US and Europe in 1995.

In 10M FY2020, on a provisional basis, the company reported a net profit of Rs. 2.3 crore (excluding depreciation and tax) on an operating income (OI) of Rs. 18.2 crore compared to a net profit of Rs. 2.2 crore on an OI of Rs. 22.1 crore in FY2019.

## Key financial indicators

	FY2019(Audited)	10M FY2020(Provisional)
Operating Income (Rs. crore)	22.1	18.2
PAT (Rs. crore)	2.2	2.3
OPBDIT/OI (%)	19.2	15.0
RoCE (%)	24.6	20.8
Total Outside Liabilities/Tangible Net Worth (times)	1.28	0.75
Total Debt/OPBDIT (times)	1.55	1.75
Interest Coverage (times)	7.97	6.63
DSCR	4.16	3.74

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					25-June-2019	04-Apr-2019	17-May-2018	05-Jan-2019
1	Cash Credit	Long Term	6.40	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)
2	Term Loan	Long Term	2.70	0.86	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)
3	Unallocated	Long Term	0.40	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)

Amount in Rs. Crore

### 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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	PCFC/FBD/OD	NA	NA	NA	6.4	[ICRA]B+ (Stable)
NA	Term Loans	FY2015	NA	FY2022	2.7	[ICRA]B+ (Stable)
NA	Unallocated limits	NA	NA	NA	0.4	[ICRA]B+ (Stable)

Source: GWASF

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