July 10, 2019

GRS Engineering Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount(Rs. crore)	Rating Action
Long Term – Fund-based-TL	14.00	[ICRA]BB (Stable); Assigned
Long Term – Fund-based-CC	6.00	[ICRA]BB (Stable); Assigned
Total	**20.00**	

** Instrument details are provided in Annexure-1*

Rationale

The assigned rating takes into consideration GRS Engineering Private Limited's healthy revenue growth in FY2018 and FY2019, driven by robust demand from the end-user industries and better sales realisation. The rating draws comfort from the extensive experience of the promoters and the management in the forging and machining industry. It shares strong association with a reputed clientele, which support GEPL's long-term business sustainability and growth prospects. Besides, the company enjoys a diversified revenue profile across the automobile and construction equipment sectors, thus mitigating the susceptibility to volatilities in any one sector. The rating also factors GEPL's the high capacity utilisation of its plants, despite continuous addition, over the years, driven by new customer addition and higher business traction from the existing customers.

The ratings are, however, constrained by the company's moderate scale of operations restricting operational and financial flexibility to some extent. The ratings are also constrained by its moderate capital structure and coverage indicators on account of sizeable ongoing debt-funded capital expenditure. Moreover, the customer concentration risk remains high with the top five customers accounting for ~88% of revenues in FY2019. Going forward, GEPL's ability to improve its scale of operations and profitability, while effectively managing its working capital, will be the key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's belief that GEPL will continue to benefit from the extensive experience of its promoters in the forging and machining business. The outlook may be revised to Positive if substantial growth in scale of operations and profitability, on a consistent basis, strengthens the company's financial risk profile. The outlook may be revised to Negative if cash accruals remain lower than expected because of a decline in the profitability, or in case of any major debt-funded capital expenditure, or if a stretch in working capital cycle weakens its liquidity.

Key rating drivers

Credit strengths

Extensive experience and established track record of promoters in the forging and machining business – Incorporated in 2006, GEPL is involved in manufacturing closed die forged and machined components. The promoters possess over a decade of experience in the steel industry. The company's extensive track record in manufacturing forged components and the presence of an experienced management are expected to drive GEPL's growth.

Healthy growth in revenues in FY2018 and FY2019 – GEPL recorded a healthy revenue growth of 47% in FY2018 and 42% in FY2019, driven by higher volume from the existing customers, new customer additions and better sales realisation.

Healthy capacity utilisation levels – The company has been incurring significant capex for increasing the capacity over the years and the total installed capacity for FY2019 was 10,200 MTPA, which increased from 4,200 MTPA in FY2016. Despite the continuous capacity addition, increasing customer demand helped in keeping the utilisation levels healthy at around 80%.

Established business relationships with reputed clientele – The company's long-term association and healthy business relationship with the original equipment manufacturers (OEMs) and tier-1/tier-2 suppliers in the automobile and construction equipment segments lend support. Moreover, GEPL's ability to add new customers and stable long-term demand prospects for its key end-user industries, support growth prospects.

Diversification of revenues across sectors – In FY2019, the automotive sector contributed to ~57%, construction sector contributed to ~36% and the remaining ~7% was contributed by defence, oil and gas, etc. The company's revenue diversification across these sectors aided in reducing the susceptibility to volatilities.

Credit challenges

Stretched capital structure – The company's capital structure remained stretched with a gearing of 3.10 times as on March 31, 2019. The capital structure remained adverse in the past due to negative net worth till FY2016. However, capital infusion by promoters, coupled with positive accretion to reserves helped in improving GEPL's capital structure over the last three years. Nevertheless, it has high debt levels, resulting in a stretched capital structure. ICRA also notes that a large part of the loan is in the form of unsecured loans from the promoters.

Significant debt-funded capital expenditure – The company is in the process of incurring an additional capital expenditure to set up a new plant with 14,400 MTPA capacity. The total capital expenditure is estimated to be Rs. 35.00 crore, to be funded by a term loan of Rs. 14.00 crore and the rest to be funded by the promoters. The debt-funded capital expenditure is likely to keep the capital structure and coverage indicators moderate over the medium term. GEPL's ability to ramp up its operations, in a timely manner, would be important for maintaining healthy profitability and coverage indicators, going forward.

High customer concentration – The company faces high customer concentration risk with the top five customers constituting ~88% of its total sales in FY2019. However, the risk is partially mitigated on account of resilient business ties with the fundamentally strong customers and addition of new customers.

Moderate scale of operations – Notwithstanding the growth in the recent years, the company's scale of operations remained moderate amid the stiff competition in the industry with an operating income (OI) of Rs. 107.31 crore in FY2019. However, with capacity addition, GEPL is expected to ramp up its revenues going forward.

Liquidity position

GEPL's liquidity position remains adequate with improved fund flow from operations in FY2019 and moderate working capital intensity of 17%. The working capital utilisation remained at ~16% of the sanctioned limits during April 2018 to March 2019. Notwithstanding substantial capex outgo in FY2020 primarily towards completion of the new plant and sizeable debt repayment obligations, the company's liquidity position is likely to remain adequate, supported by healthy cash accruals and favourable repayment tenure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company

Incorporated in 2006, GRS Engineering Private Limited is a closely-held company with manufacturing facilities in Mysore. The company is involved in manufacturing steel forgings primarily catering to the automotive and construction equipment industries. Mr. B. Subraya Baliga (Promoter Director) and his family held 100% stake in the company as on March 31, 2019. GEPL had an installed capacity of 10,200 MT) per annum in FY2019 and is in the process of setting up another forging unit in Mysore with an installed capacity of 14,400 MT per annum. The new plant is likely to commence operations from August 2019.

In FY2019,on provisional basis, the company reported a net profit of Rs. 6.15 crore on an OI of Rs. 107.31 crore compared to a net profit of Rs. 6.47 crore on an OI of Rs. 75.91 crore in the previous year.

Key financial indicators (Audited)

	FY2018	FY2019*
Operating Income (Rs. crore)	75.9	107.3
PAT (Rs. crore)	6.5	6.2
OPBDIT/ OI (%)	18.8%	14.5%
RoCE (%)	36.8%	38.1%
Total Debt/ TNW (times)	2.8	3.1
Total Debt/ OPBDIT (times)	2.0	3.3
Interest Coverage (times)	4.2	3.6
NWC/OI	22.8%	14.6%

** Provisional*

Status of non-cooperation with previous CRA:

CARE in its press release dated February 20, 2019 has moved the rating of B+ with Stable outlook to Issuer Not Cooperating category. CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating.

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on March 31, 2019	Date & Rating Jul 2019	Date & Rating in FY2019 -	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Fund-based facilities (TL)	Long Term	14.0	11.65	**[ICRA]BB (Stable)**	-	-	-
2	Fund-based facilities (CC)	Long Term	6.0	-	**[ICRA]BB (Stable)**	-	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	NA	NA	NA	14.00	[ICRA]BB (Stable)
NA	CC	NA	NA	NA	06.00	[ICRA]BB (Stable)

Source: GEPL

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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.

For more information, visit www.icra.in

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