

October 06, 2014

CARE REVISES/REAFFIRMS RATINGS ASSIGNED TO BANK FACILITIES AND INSTRUMENTS OF GAMMON INDIA LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	949.05	CARE D [Single D]	Revised from CARE C [Single C]
Long/Short-term Bank Facilities	10,355.00	CARE C/CARE A4 [Single C/A Four]	Reaffirmed
Total Facilities	11,304.05		
Non-Convertible Debentures	324.00	CARE D [Single D]	Revised from CARE C [Single C]

Rating Rationale

The ratings assigned to the bank facilities and instrument of Gammon India Limited (GIL) have been revised owing to delays in servicing of interest on non-convertible debentures and overdrawals in fund-based limits. The liquidity position of the company is constrained due to delays in recoveries from customers, project execution delays resulting in holding of high inventory thereby blocking working capital funds and cost-overruns which in turn resulted to cash losses being incurred.

GIL's ability to improve profitability margins, efficiently manage working capital cycle amidst delays in recoveries from customers and timely servicing of debt obligations are the key rating sensitivities.

Background

Incorporated in 1922, GIL is the flagship company of the Gammon group and offers services covering the whole gamut of the civil and construction activities. GIL undertakes construction of roads, bridges, flyovers, power plants, chimneys and cooling towers, cross-country pipelines, structures for hydro-electric power projects, buildings and factories. The company has also been present in the infrastructure project development space since 2001 through GIL's subsidiary Gammon Infrastructure Projects Limited (GIPL, 74.98% stake, rated CARE BBB+/ CARE A3+ for bank facilities and instruments), which executes public private partnership based projects in the road, port and power sectors through project-specific special purpose vehicles.

The company has provided corporate guarantee to non-convertible debentureholders of Metropolitan Infra Housing Private Limited (subsidiary of GIL, rated CARE D for instruments) for repayment of principal and interest, which is currently, revoked.

Credit Risk Assessment

Delays in servicing of debt obligations

The liquidity position of the company is constrained on account of delays in recoveries from customers as reflected in increase in collection period to 188 days as at the end of December 2013 as compared to 149 days as at the end of March 2013. Moreover, the working capital is blocked in inventory owing to delays in execution of projects as reflected in inventory holding period of 153 days as at the end of December 2013 as compared to 136 days as at the end of March 2013. Thus, the working capital cycle remains elongated. On account of the above, there have been delays in servicing of interest on non-convertible debentures as well term loans and overdrawals in fund-based facilities.

Improvement in profitability albeit high interest costs and negative cash accruals

The company reported negative operating margin in 9MFY14 owing to cost overruns due to delays in projects and writing off of irrecoverable advances to suppliers, sub-contractors, retention money and debtors. Nevertheless, the operating margins have improved during half year ended June 30, 2014 owing to decline in material cost, sub-contracting charges and increase in other income.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

However, interest and finance cost continues to increase during half year ended June 30, 2014 owing to delays in repayment of loans and higher utilisation of working capital facilities. Hence, on account of the above factors, the company continues to report negative cash accruals.

On a consolidated level, Gammon group reported net loss of Rs.817 crore on a total income of Rs.4,977 crore in 9MFY14 as against PAT of Rs.922 crore on a total income of Rs.7,504 crore in FY13.

Standalone Financial Performance

	(Rs. Cr)		
<i>For the period ended / as at,</i>	<i>March 2012</i>	<i>March 2013</i>	<i>December 2013</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(9m, A)</i>
<u>Working Results</u>			
Total Operating income	5,707	5,335	3,388
PBILDT	642	235	(128)
Interest	396	477	426
Depreciation	102	107	83
PBT	147	(440)	(911)
PAT (after deferred tax)	87	(446)	(766)
Gross Cash Accruals	175	(335)	(832)
<u>Financial Position</u>			
Equity Capital	28	28	28
Networth	2,077	1,669	856
Total capital employed	4,825	5,201	5,201
<u>Key Ratios</u>			
<i>Profitability</i>			
PBILDT/Total Operating income (%)	11.25	4.40	(3.77)
PAT (after deferred tax)/ Total income (%)	1.53	(8.35)	(22.61)
ROCE (%)	12.27	0.72	NM
Average cost of borrowing (%)	15.29	15.21	14.42
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	0.24	0.68	3.81
Overall gearing ratio(times)	1.32	2.11	5.07
Interest coverage(times)	1.63	0.49	NM
Term debt/Gross cash accruals(years)	4.1	NM	NM
<i>Liquidity</i>			
Current ratio(times)	0.92	0.76	1.05
Quick ratio(times)	0.54	0.39	0.55
<i>Turnover</i>			
Average collection period (days)	105	149	188
Average creditors (days)	87	106	121
Average inventory (days)	118	136	153
Operating cycle (days)	136	179	219

NM: Not meaningful

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