Generic Engineering Construction and Projects Limited

October 01, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities- Cash Credit	45.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities- Bank Guarantee	39.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Reaffirmed
Short Term Bank Facilities- LC	6.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	90.00 (Rs. Ninety Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale, Key Rating Drivers

The ratings assigned to the bank facilities of Generic Engineering Construction and Projects Limited (GECPL) continue to derive strength from the company's long track record and established position in the construction industry, reputed clientele base, healthy order book position and comfortable capital structure.

The ratings, however, is tempered by moderate scale of operations, geographical and sectoral concentration of business, working capital intensive nature of operations, susceptibility of margins to volatility in raw material prices & labour cost and presence in competitive and cyclical construction industry. The ratings also factored in the slow progress in the execution of projects due to the covid 19 disruptions during H1FY21, which resulted in elongation in collection period.

CARE notes that the lockdown implemented by the government towards containment of COVID-19 has impacted the business operations of the company in FY21 resulting into slower pace of construction. However, the same is recovering gradually with the business gaining momentum since the last 3 quarters. Going forward, GECPL's ability to timely execute its work orders coupled with improvement in operating cycle through timely collection of receivables would be critical from credit perspective. Also, the company's ability to improve profitability and maintain capital structure by efficiently managing its working capital requirements are the key rating sensitivities.

Rating Sensitivities

Positive rating sensitivities:

- Increase in the scale of operations with a total operating income exceeding Rs.300 crore and PBILDT margin at 15% on a sustained basis
- Improvement in working capital cycle to around 3 months on sustained basis

Negative rating sensitivities:

- Steep decline in revenue to below Rs.100crore and PBILDT margin below 12% on a sustained basis
- Deterioration in the capital structure with the overall gearing exceeding 1x on a sustained basis
- Deterioration in the liquidity profile with stretch in Gross Current Asset days beyond 300days on a sustained basis
- Any further stretch in current receivables position and non- recovery of long pending dues pertaining to Arihant Construction Company
- Any further delay in execution of stalled projects
- Any delay in support from promoters in case of exigency

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters having established track record in construction activities

The company possesses a long track record of over five decades of operations in construction activities. Furthermore, the promoters are highly experienced with their association for more than two decades in the industry. The company has undertaken various residential projects, commercial projects including those for commercial complexes, shopping complexes, R&D centers, automobile showrooms, data centers, cold storage units, IT parks, educational academies, etc. On the other hand,

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

the industrial projects comprising construction of factories across various sectors viz. spices, sweets & confectioneries, cold storage, metals, chemicals, etc.

Healthy order book position

The order book position of GECPL remained healthy with the total value of unexecuted orders reaching Rs.1,244.74crore as on June 30, 2021. From April 2021 to June 2021, the company has bagged fresh orders from various companies which are expected to be executed at various periods but latest by end of 2023. However, about 50% of the total order book remains slow moving due to the disruption in project execution caused during H1FY21 by lockdowns and labour non-availability. Currently the order executions are occurring at full pace which can be corroborated from the revenue generation shown in Q4FY21 and Q1FY22.

Moderate profit margins

The PBILDT margin of GECPL continued to remain moderate at 16% in FY21 led by proportionate decrease in various overhead costs viz. salary expenses, office expenses, professional fees, conveyance and travelling charges, labour charges, hire charges etc. PAT margin declined from 7.22% in FY20 to 2.11% in FY21 owing to increase in the depreciation & interest costs. Due to the pandemic the receivables have been stretched as the payments were slowly released by clients. However, the company managed to keep up with delays in project execution faced in H1FY21 by availing working capital limits as well as ECLGS loan from banks, which in turn led to higher interest expenses.

Comfortable capital structure

The capital structure of GECPL continued to remain comfortable with the overall gearing of 0.38 times as on March 31, 2021 (vis-à-vis 0.32 times as on March 31, 2020). Further Total Outside Liabilities to Net-worth was at 0.55x as on March 31, 2021 vis-à-vis 0.49x as on March 31, 2020.
Owing to the decline in scale of operations and consequent deterioration in cash accruals, the total debt/GCA deteriorated to 5.71x in FY21 (vis-à-vis 2.51x in FY20). Further, due to the increase in the interest expenses owing to increase in the debt levels, the interest coverage ratio deteriorated to 3.50x in FY21 (vis-à-vis 5.71x in FY20).

Key Rating Weaknesses

Moderate scale of operations

During FY21, total operating income of company declined to Rs.131.88 crore (vis-à-vis Rs.201.23 crore in FY20) due to the labour availability issues pertaining to covid 19 from April to August 2020. In some of the government projects such as Maharashtra State Police Housing-Marol the company faced challenges with respect to clearances from various government agencies, transfer of services of supervising government officials and relocation of labourers to site which led to delays in execution. In H2FY21 the company regained the pace at work with the reopening of lockdown and return of migrant labourers. The management is expecting to achieve better revenues in the upcoming quarters owing to the increase in the order book size availability of labour workforce.

Geographical and Sectoral concentration risk

The projects undertaken by the company are confined mainly to Maharashtra, thereby possessing geographical concentration risk for the company however company has started receiving orders from other states thereby it is diversifying the geographical reach. Majority of the order book is from real estate segment thereby it is linked with the cyclicality nature of real estate.

Working capital intensive nature of operations

Working capital cycle elongated to 313 days in FY21 vis-à-vis 158 days in FY20 on account of stretch in debtors and inventory holding. The billing cycle of the company is about 80% on monthly basis and the rest on milestone basis. The company does not avail mobilization advances in most cases as the clients are largely private sector developers who also accept corporate guarantee in place of bank guarantees; instead, the company has arrangement with developers wherein the company raises bills after the shifting of materials to the site and it receives payment within a few days.
The inventory holding of GECPL deteriorated from 62 days in FY20 to 152 days in FY21 owing to a slow turnaround in the WIP inventory and construction material at site which led to increase in inventory as on March 31, 2021.
Further, the collection period elongated from 141 days in FY20 to 240 days in FY21 owing to slower recoveries from the clients citing the impact of the pandemic. However, collections have improved since Q4FY21 along with normalcy in project execution observed in the last three quarters.

Susceptibility of profit margins to volatile raw material & labour prices

The profit margins of company are susceptible to volatility in prices of various construction materials viz. cement, steel, etc. and also volatile labour prices. However, the same is partially mitigated through price escalation provision made with customers with regards to raw material prices.

Presence in competitive & cyclical construction industry
The company operates in a highly competitive construction industry with a number of small & large players engaged in the construction activities which resulted in moderate profitability due to competitive pricing strategies and with liberal credit policies adopted by the company. Moreover, the prospects are also linked to the cyclicality in the real estate industry which further resulted in slow-down in the ongoing real estate construction projects availed by the company due to muted market sentiments in the real estate industry.

Liquidity: Adequate
The liquidity position of the company remained adequate marked by sufficient cushion in accruals vis-à-vis repayment obligations and cash & bank balance of Rs.8.23crore as on March 31, 2021 vis-à-vis Rs.1.22crore as on March 31, 2020. The average utilization of its working capital limits during past 12 months ended June 2021 stood at 92% and does not provide much liquidity backup. The current ratio and quick ratio stood comfortable at 2.08 times and 1.49 times respectively as on March 31, 2021 (vis-à-vis 2.25 times and 2.03 times respectively as on March 31, 2020).

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning outlook and credit watch to Credit Ratings
Rating Methodology – Construction Sector
Financial ratios (Non-Financial Sector)
CARE's Methodology for Short-term Instruments

About the Company
Generic Engineering Construction and Projects Limited was originally incorporated in the year 1994 under the name of Welplace Portfolio & Financial Consultancy Services Limited which took over the construction business of Generic Engineering and Construction Private Limited in November 2016. GECPL was founded in 1967 by the Patel family and it is currently managed by Mr. Manish Patel and his family along with Mr. Tarak Gor. The company is engaged in construction of various residential, commercial and industrial projects. The company has its registered office is located at Vikhroli in Mumbai, Maharashtra.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	201.23	131.88
PBILDT	30.07	21.10
PAT	14.54	2.78
Overall gearing (times)	0.32	0.38
Interest coverage (times)	5.71	3.50

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	45.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	39.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	6.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB-; Stable	1)CARE BBB-; Stable (25-May-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (26-Feb-21)	1)CARE BBB; Stable (31-Dec-19)	1)CARE BBB; Stable (07-Jan-19)
2	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	39.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (25-May-21)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (26-Feb-21)	1)CARE BBB; Stable / CARE A3+ (31-Dec-19)	1)CARE BBB; Stable / CARE A3+ (07-Jan-19)
3	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A3	1)CARE A3 (25-May-21)	-	-	-

Annexure 3: **Detailed explanation of covenants of the rated facilities:** Not available

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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