Geecy Engineering Private limited

January 03, 2023

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	9.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus)	Reaffirmed
Short Term Bank Facilities	21.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**30.00 (₹ Thirty Crore Only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings to the bank facilities of Geecy Engineering Private Limited (GEPL) continue to derive strength from the experienced promoters with long track record of operations, reputed although concentrated client base, healthy profit margins; albeit decline in FY22, comfortable capital structure and debt coverage indicators.

The ratings, however, continue to remain tempered by modest and fluctuating scale of operations with moderate order book position, working capital intensive nature of operations, susceptibility profit margins to volatility in raw material prices, foreign exchange fluctuation risk and presence in highly competitive and fragmented nature of industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- ✓ Increase in the scale of operations with total operating income exceeding Rs.100 crore on a sustained basis.
- ✓ Improvement in collection period to below 75 days on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- × Deterioration in profit margins with PBILDT margin reach below 10% and PAT margin below 5% on a sustained basis
- × Deterioration in the capital structure with the overall gearing exceeding unity on a sustained basis
- × Deterioration in the debt coverage indicators with interest coverage ratio reaching below 3 times and total debt to gross cash accruals exceeding 2 times on a sustained basis
- × Any major debt funded capex leading to depletion in its liquidity position and increase in its fund based working capital utilization level exceeding 70% on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters and long track record of operations: GEPL has an established track record of more than two decades of operations in the engineering industry. The day-to-day operations were earlier looked after by late Mr. Manoj Ruparel, who had a significant experience of more than three decades in the fabrication and manufacturing of pressure vessel industry. Post his demise on Feb 01, 2022, the day-to-day operations continued to be looked after by a team of professional. Mr. Sree kumar G Pillai (Director), Mr. Shailesh Thakkar (Head of Designer Engineering) and Mr. Jiignesh Kothari (Vice President) who possesses more than two decades of experience in same line of business look after the Production, Engineering and finance functions respectively.

Healthy, albeit declined profit margins: The GEPL operates at healthy profit margins. The PBILDT and PAT margins stood in the range of 13.21%-32.68% and 8.66%-22.79% respectively over last five years. During FY22, the PBILDT margin has declined to 14.86% in FY22 (vis-à-vis 19.49% in FY21); albeit continued to remain healthy. The decline in PBILDT margin in FY22 was on account of low value of critical items sold in FY22 (Change in product mix), higher raw material costs and higher transportation cost. The same is also attributable to increase in share of trading income, which generally have lower margin. However, despite decline in PBILDT margin, the PAT margin has improved significantly and stood at 17.71% in FY22 (vis-à-vis 13.77% in FY21). The same was attributable to higher non operating income, which rose to Rs.3.07 crore in FY22 from Rs.0.79 crore in FY21 as well as reduction in Interest expenses by Rs.0.22 crore to Rs.0.52 crore in FY22 (vis-à-vis Rs.0.74 crore in FY21). Moreover, the gross cash accruals have remained largely stable at Rs.5.60 crore in FY22 (vis-à-vis Rs.6.55 crore in FY21).

Reputed although concentrated customer base: GEPL continues to have good relationship with the reputed customers namely L&T Hydrocarbon Engineering Limited, Haldia Petrochemicals Limited, Reliance Industries Limited, Linde Engineering India Private Limited, Indorama Eleme Fertilizers & Chemicals Limited, Finolex Industries Limited and others. Furthermore, 97.59% of TOI in FY22 (vis-à-vis 96.50% in FY21) is generated from the top 5 customers wherein Reliance Industries Limited contributed highest, accounting for about 32.64%, thus resulting in customer concentration risk. Nevertheless, the customer

[1]Complete definition of the ratings assigned are available at wwwcareedgein and other CARE Ratings Ltd.'s publications

concentration risk is mitigated to an extent on the back of healthy credit profile of these reputed clients. Furthermore, the company is dealing with the aforesaid customers for more than two decades.

Comfortable capital structure and debt coverage indicators: The capital structure of the company continues to remain comfortable and stable on y-o-y basis with overall gearing at 0.10x as on March 31, 2022 (vis-à-vis 0.06x as on 31 March 2021). The company's reliance on external debt continues to remain low owing to efficient working capital management and further company continue to have no long-term debt.
Further, consequent to lower debt levels the debt coverage indicators i.e., total debt to GCA continued to remain comfortable at 1.35 times in FY22 (vis-à-vis 0.70 times in FY21). On the other hand, interest coverage ratio deteriorated on account of decline PBILDT in FY22, however, continued to remain at comfortable levels at 8.36 times in FY22 (vis-à-vis 11.63 times in FY21 respectively).

Key rating weaknesses
Modest and fluctuating scale of operations: Total operating income (TOI) continues to remain modest and volatile. The TOI of the company declined by 34% to Rs.29.21 crore in FY22, the decline in revenue was mainly on account of i) loss of revenue for first three months of FY22 due to covid and ii) The company had completed order worth Rs.15 crore, however, the same was not despatched due to ongoing Russia Ukraine war. The order was from a German company for the supply to be done to Russia for which the company is yet to book the revenue.
Moreover, led by improved execution of orders in the current financial year, the company reported a TOI of Rs.36 crore for 7MFY23. Also, GEPL's unexecuted orderbook as on December 27, 2022 was at Rs.32.96 crore as against Rs.53.39 crore as on November 27, 2021 thereby indicating near term revenue visibility. Accordingly the company is expected to report an additional revenue of Rs.22 crore in the balance months up to March 31, 2023. Nevertheless, the overall scale of operations continues to remain modest. While the tangible net worth has increased by 7.36% and remained comfortable at Rs.75.52 crore as on March 31, 2022 (vis-à-vis Rs.70.34 crore as on March 31, 2021) due to accretion of profits during FY22
Working capital intensive nature of operations: GEPLs working capital cycle has elongated to 359 days in FY22 (vis-à-vis 248 days in FY21) on account increase in the inventory period. The inventory holding period has significantly elongated to 265 days during FY22 (vis-à-vis 144 days in FY21) on account of higher inventory of finished goods kept at year end which was unable to dispatch to its clients owing to order being from Russia of a German company. Further, as on March 31, 2022, the WIP inventory was higher owing to order execution at the financial year end but not despatched. The collection period though improved and stood at 119 days in FY22 (vis-à-vis 125 days in FY21). On the other hand, the creditors period was moderate at 25 days in FY22 (vis-à-vis 22 days in FY21) due to prompt payment policies adopted by the company. However, the company primarily meet its working capital requirements through own funds and internal accruals and hence, on an average the maximum utilization of the working capital remained moderate at 44.90% during past twelve months ended November 30, 2022.
Susceptibility profit margins to volatility in the raw material prices and foreign exchange fluctuation risk: The profit margins of GEPL remain exposed to volatility in input prices in the absence of any long-term contract with suppliers and especially on the back of its moderately high inventory holding and hence it is exposed to the risk of raw material price fluctuation. Moreover, GEPL procures the raw materials in batches which further expose the company to volatility in prices. Due to the time lag between the bagging up of order, procurement of raw material and execution, GEPL is not able to pass on the rise in raw material prices due to absence of price escalation clause. Accordingly, the profit margins of the company are susceptible to fluctuation in raw material prices. Further, GEPL is exposed to foreign exchange fluctuation risk; given imports constitutes of 14% in FY22 (vis-à-vis 5% in FY21) of its raw material from U.S., Saudi Arabia etc. As against the same during FY22, around 12% (vis-à-vis 37.34% in FY21) of revenue was generated through exports from Germany, USA, Nigeria, U.A.E and Russia which partially mitigates the foreign exchange risk to an extent.
Moreover, the GEPL does not hedge its foreign transections. Hence, the foreign currency risk continues to exist due to timing differences in sales, purchases and payments. Accordingly, its profitability remained exposed to forex risk. During FY22, the company has earned forex gain of Rs.0.26 crore (vis-à-vis forex gain of Rs.0.33 crore in FY21).
Presence in highly fragmented industry leading to stiff competition: GEPL operates in a highly fragmented industry marked by the presence of a large number of players in the unorganized sector, which accounts for high share of the total domestic turnover. The industry is characterized by low entry barriers due to low technological inputs and easy availability of standardized machinery for the production. Since the industry is highly competitive, further it has low bargaining power and as a result the company has to follow a competitive price strategy. Further, the company deals with reputed customers and hence it has to undergo the bidding process through participating in the tenders which further intensifies the already prevailing competition in the market.

Liquidity: Adequate

Liquidity position of the company remained adequate marked by healthy accruals against nil repayment obligations along with healthy free cash & liquid investments to the tune of Rs.5.51 crore as on March 31, 2022 (vis-à-vis Rs.5.95 crore as on March 31, 2021). With a gearing of 0.10 times as of March 31, 2022, the company has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year with average utilization of the working capital remained moderate at 44.90% during past twelve months ended November 30, 2022.

Analytical approach: Standalone

Applicable criteria
[Criteria on assigning 'Outlook' or 'Rating Watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-financial sector entities]

About the company
Geecy Engineering Private Limited (GEPL) was incorporated in 1991 by Late Mr. Manoj Ruparel and is currently being managed by Mr. Sreekumar G Pillai, Mr. Shailesh Thakkar and Mr. Jiignesh Kothari. The company is engaged in manufacturing and fabrication of critical heavy process equipment viz. Pressure Vessels, Heat Exchangers, Columns & Towers, Reactors, Bullets, Reaction Vessels and others which finds application majorly in the oil refineries, petrochemical, fertilizer, food processing and power industry. GEPL's manufacturing facilities is located in Navi Mumbai and has an installed capacity to manufacture around 2000 MTPA of Heat Exchangers and Pressure Vessels.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	44.13	29.21	36.00
PBILDT	8.60	4.34	NA
PAT	6.08	5.17	NA
Overall gearing (times)	0.06	0.10	NA
Interest coverage (times)	11.63	8.36	NA

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: NA
Current Year Performance: The company has achieved a total revenue of Rs.36.00 crore in H1FY23.
Any other information: NA
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3
Complexity level of various facilities rated for this company: Annexure-4

Annexure-1: Details of facilities

Name of the Facility	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	9.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Bank Guarantee		-	-	-	21.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	9.00	**CARE BBB; Stable / CARE A3+**	-	1)CARE BBB; Stable / CARE A3+ (06-Dec-21)	1)CARE BBB; Stable / CARE A3+ (31-Mar-21)	1)CARE BBB; Stable / CARE A3+ (06-Jan-20)
2	Non-fund-based - ST-Bank Guarantee	ST	21.00	CARE A3+	-	1)CARE A3+ (06-Dec-21)	1)CARE A3+ (31-Mar-21)	1)CARE A3+ (06-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: NA

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Annexure-4: Complexity level of various facilities rated for this company

Sr. No.	Name of Facility	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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