Generic Engineering Construction and Projects Limited (GECPL)

May 25, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	45.00 (Enhanced from 18.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable; (Double B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	39.00 (Enhanced from 24.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable / CARE A4+; (Double B Plus; Outlook: Stable / A Four Plus)
Short Term Bank Facilities	6.00	CARE A3 (A Three)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE A4+; (A Four Plus)
Total Facilities	90.00 (Rs. Ninety Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Generic Engineering Construction and Projects Limited (GECPL) factors in healthy order book position, comfortable capital structure and debt coverage indicators. Furthermore, the ratings continue to derive strength from the company's long track record and established operations in construction activities as supported by highly experienced management, having reputed clientele base, healthy order book position, coupled with moderate operating profitability margins and adequate liquidity position

The ratings, however, is tempered by its moderation in scale of operation, geographical and sectoral concentration of business, working capital intensive nature of operations, susceptibility of margins to volatile raw material & labour prices and presence in competitive and cyclical construction industry. The ratings also factored in the slow progress in the execution of projects resulting into elongation in collection period and increased dependence on working capital bank borrowings.

CARE notes that the lockdown in various parts of the country implemented by the government from time to time towards containment of COVID-19 in the recent past has impacted the business operations of the company in FY21 resulting into lower pace of construction. However, the same is expected to recover gradually with the business gaining momentum.

Going forward, GECPLs 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.

Key rating sensitivities

Positive Factors

- Maintain order book to around 5x of gross revenue.
- Increase in the scale of operation with a total operating income exceeding Rs.300 crore on a sustained basis with healthy profitability margins

Negative Factors

- Deterioration in the capital structure with the overall gearing exceeding 1x and total outside liability to tangible net worth exceeding 1x on a sustained basis
- Deterioration in debt coverage indicators with interest coverage ratio reaching below 2x and total debt to gross cash accruals exceeding 7x on a sustained basis
- Deterioration in the liquidity profile with elongation in gross current assets period exceeding 450 days on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operation and highly experienced promoters in construction activities with healthy order execution track record: The company possesses a long track record of over five decades of operations in construction activities.

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

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

Healthy order book position: The company has healthy order book position of more than 30 orders in hand worth Rs. 1,179.83 crore as on April 29, 2021, which are expected to be executed by end of 2023. Further the construction work is going on at construction sites and there is no labor shortage issue in all on going projects during the second wave of Covid pandemic. However, about 50% of the total order book remained slow moving in nature and hence, timely execution of the same remains critical.

Moderate profit margins: The PBILDT margin of company continued to remain at moderate level and declined marginally from 15.23% in FY19 to 14.94% in FY20 owing to a proportionate increase in various overhead costs viz. employee costs, office expenses, professional fees, conveyance and travelling charges, labour charges, hire charges in FY20. With decline in the PBILDT margin, the PAT margin also declined marginally from 7.67% in FY19 to 7.22% in FY20 owing to increase in the interest costs and depreciation due to increase in the fixed assets (i.e. office premise of Rs. 19.01 crore, MS centering machine of Rs. 15.04 crore and other equipment, furniture and fixture, etc. of Rs. 2.09 crore) of Rs. 36.14 crore and increase in utilization of working capital bank borrowings in FY20.
During 9MFY21, the PBILDT margin declined significantly to 7.50% in 9MFY21 vis-à-vis 15.49% in 9MFY20. Further company reported net loss of Rs. 3.95 crore vis-à-vis net profit of Rs. 10.66 crore in 9MFY20. However, during FY21, as per the provisional financials, the company has achieved PBILDT margin of 12.14% and registered net profit as well as cash profits.

Comfortable capital structure & debt coverage indicators: The capital structure of company continued to remain comfortable however moderated with the overall gearing of 0.32 times as on March 31, 2020 (vis-à-vis 0.22 times as on March 31, 2019) on account of increase in debt level due to significant increase in utilization of working capital bank borrowings as on March 31, 2020. Further Total Outside Liabilities to Net-worth remained at same level of 0.49x as on March 31, 2020 vis-à-vis 0.47x as on March 31, 2019. Owing to the increase in the debt level, the total debt/GCA remained deteriorated and stood at 2.51x in FY20 (vis-à-vis 1.43x in FY19). Further, given the increase in the interest costs owing to a significant increase in the debt levels, the interest coverage ratio deteriorated to 5.71 times in FY20 (vis-à-vis 7.39 times in FY19). However, debt coverage indicators continued to remain comfortable in FY20.

Key Rating Weaknesses
Moderate scale of operations: The scale of operations of company remained stable with total operating income of Rs.201.23 crore in FY20 vis-à-vis Rs. 203.65 crore in FY19 on the back of healthy order book position and execution of on-going projects in FY20. The tangible net-worth base also stood healthy at Rs.159.94 crore as on March 31, 2020 (vis-à-vis Rs.133.57 crore as on March 31, 2019) on account of accretion of profit to reserve. However, during 9MFY21, total operating income of company declined to Rs.76.00 crore (vis-à-vis Rs.151.08 crore in 9MFY20) as business was impacted due to covid-19 pandemic. Nevertheless, the company has achieved total operating income of Rs. 128.46 crore in FY21 thereby exhibiting a decline of around 36% on a y-o-y basis; yet enough to register operating profit and cash profits during the year.

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. Also 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 158 days in FY20 vis-à-vis 88 days in FY19 on account of elongation in collection and inventory holding period. The inventory holding of company deteriorated from 33 days in FY19 to 62 days in FY20 owing to a slow turnaround in the WIP inventory and construction material at site which led to increase in inventory to Rs. 44.03 crore as on March 31, 2020 vis-à-vis Rs. 14.75 crore as on March 31, 2019. Further, the collection period also elongated from 107 days in FY19 to 141 days in FY20 owing to slower recoveries from the clients on account of slowdown in end user industry and total debtors also includes retention money which increased to Rs. 20.91 crore as on March 31, 2020 (vis-à-vis Rs. 18.14 crore as on March 31, 2019) which are recoverable post completion of projects. Therefore, gross current assets days elongated to 203 days in FY20 vis-à-vis 140 days in FY19. On the other hand, the creditors' period also shortened from 52 days in FY19 to 45 days in FY20. Given this, the average CC utilization in the last twelve months ended March 2021 stood high at 86.40%.

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 Position: 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. 4.32 crore as on March 31, 2021 vis-à-vis Rs.1.22 crore as on March 31, 2020. There is no capex planned. The average utilization of its working capital limits during past twelve months ended March 2021 stood at 86.40%. Further, the current ratio and quick ratio stood comfortable at 2.08 times and 1.49 times respectively as on March 31, 2020 (vis-à-vis 2.25 times and 2.03 times respectively as on March 31, 2019). The company had availed moratorium during covid-19 pandemic situation.

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)	FY19 (A)	FY20 (A)	9MFY21 (UA)	FY21 (Prov.)
Total operating income	203.65	201.23	76.00	128.46
PBILDT	31.01	30.07	5.70	15.60
PAT	15.62	14.54	-3.95	1.24
Overall gearing (times)	0.22	0.32	NA	NA
Interest coverage (times)	7.39	5.71	1.34	2.68

A: Audited, UA: Unaudited, Prov.: Provisional, NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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 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 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	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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

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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