Generic Engineering Construction and Projects Limited

January 7, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	18.00	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Long-term/Short-term Bank Facilities	24.00	**CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/A Three Plus)**	**Revised from CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/A Three)**
Total	**42.00 (Rupees Forty Two 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 (Generic) takes into account a significant improvement in the scale of operations & profit margins in FY18 (refers to the period April 1 to March 31) and H1FY19 (refers to the period April 1 to September 30). The ratings also take into account improvement in the capital structure & debt coverage indicators marked by fresh equity infusion, improvement in the operating cycle & liquidity position and healthy order book position.

The ratings, further, continue to derive strength from the company's long track record of operations in construction activities with healthy execution track record coupled with reputed clientele and highly experienced promoters in construction activities.

The ratings, however, continue to be constrained by susceptibility of margins to volatile raw material & labour prices, working capital intensive nature of operations and presence in competitive & cyclical construction industry.

The ability of the company to increase the scale of operations by timely execution of orders in hand and further strengthening the order book and maintain the profit margins amidst competitive scenario and maintain the capital structure and the liquidity position by efficiently managing the working capital requirement are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations in construction activities with healthy order execution track record and reputed clientele: Generic possesses a long track record of over five decades of operations in construction activities. The company has undertaken various industrial projects comprising construction of factories across various sectors viz. spices, sweets & confectioneries, cold storage, metals, chemicals, etc. On the other hand, the commercial projects include those for commercial complexes, shopping complexes, R&D centers, automobile showrooms, data centers, cold storage units, IT parks, educational academies, etc.

Highly experienced promoters in construction activities: Generic group was founded in 1967 by Mr. Ravilal Patel, whereas Generic Engineering and Construction Private Limited (GECPL) was managed by him along with his sons Mr. Manish Patel, Mr. Dinesh Patel and Mr. Mitul Patel, all of who possess a total experience of over 25 years, 13 years and 28 years respectively. Currently, Generic is managed by Mr. Manish Patel and Mr. Tarak Gor who is associated with the Generic group since 2012.

Healthy order book position: Generic possesses a healthy order book position of 22 open orders in hand worth Rs.543.30 crore as on November 1, 2018 (vis-à-vis Rs.248 crore as on November 7, 2017), which are expected to be executed by H1FY22.

Comfortable capital structure & debt coverage indicators: The capital structure of Generic stood comfortable with the overall gearing of below unity, given the majority reliance on own funds. Moreover, the capital structure improved significantly in FY18 and H1FY19 led by a fresh equity infusion worth Rs.55.56 crore in FY18 and Rs.8.35 crore in H1FY19

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

owing to preferential issue of equity as well as warrants over the same period. Given this along with increased profitability, the debt coverage indicators also stood comfortable.

Continuously increase in scale of operations: The scale of operations of Generic ranged from Rs.44-140 crore over FY15-FY18. Moreover, the same has been continuously increasing at a healthy rate of 46.15% CAGR over the same period, especially in FY18, owing to increase in order executions led by increase in order receipts from the new as well as existing customers over the same period. Moreover, the tangible net-worth base also increased significantly from Rs.28.44 crore as on March 31, 2017 to Rs.97.41 crore as on March 31, 2018.

Fluctuating albeit moderate profit margins: The PBILDT margin of Generic stood moderate in the range of 9-15% over FY15-FY18. Moreover, the same has been fluctuating over the same period owing to fluctuating material & labour costs as per the changing requirement on contract-to-contract basis, which may require different level of material & labour deployments. Moreover, the aforementioned fluctuations in the profit margins are also susceptible to fluctuating material costs viz. cement, steel, etc. and fluctuating labour costs. The PBILDT margin improved significantly from 9.78% in FY17 to 14.63% in FY18 owing to a significant increase in finishing works thereby reducing the material cost during the year. On account of the same the PAT margin has also improved from 3.46% in FY17 to 8.27% in FY18.

Key Rating Weaknesses

Working capital intensive nature of operations: The operations of Generic are working capital intensive in nature with majority of funds for over 50-100 days blocked in inventory, and over 70-80 days in debtors. However, led by higher suppliers' credit in the range of 80-110 days, the operating cycle stood moderate in the range of 40-70 days over FY15-FY18. However, led by a significant improvement in the inventory holding owing to a significant turnaround of operations, the operating cycle improved significantly from 60 days in FY17 to 43 days in FY18. However, the utilization of the working capital limits remained high.

Susceptibility of profit margins to volatile raw material & labour prices: The profit margins of Generic are susceptible to volatility in prices of various construction materials viz. cement, steel, etc. and also volatile labour prices.

Presence in competitive & cyclical construction industry: Generic operates in a highly competitive construction industry with a number of small & large players engaged in the construction activities. Moreover, the prospects are also linked to the cyclicality in the real estate industry.

Liquidity Analysis

The liquidity position of the company is marked by comfortable current ratio and quick ratio at 2.39 times and 2.07 times respectively as on March 31, 2018 (vis-à-vis 1.22 times and 0.72 times respectively as on March 31, 2017). However, the average and maximum utilization in the cash credit limit during the last 12 months ended November 2018 stood high at 82.04% and 89.06% respectively. The net cash flow from operating activities stood negative at Rs.0.31 crore in FY18 (vis-à-vis negative at Rs.4.80 crore in FY17). Moreover, in addition to the significant infusion in equity share capital, the company owns a free cash & bank balance worth Rs.55.79 crore and Rs.49.37 crore as on March 31, 2018 and September 30, 2018 respectively (vis-à-vis Rs.10.19 crore as on March 31, 2017).

Analytical approach: Combined

CARE has combined the financial risk profile of Generic and GECPL for FY17 to arrive at credit rating of Generic as GECPL was engaged in construction business till October 2016 whereas the said business was transferred to Generic by way of Business Transfer Agreement (BTA) dated November 7, 2016. Further, in FY18 the standalone financials of Generic are considered for the credit assessment, whereas in case of FY16, the entire financials of only GECPL were considered.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Methodology for Short-term Instruments
CARE's Policy on Default Recognition
CARE's Methodology for Manufacturing Companies
Financial ratios (Non-Financial Sector)

About the Company

Generic Engineering Construction and Projects Limited (Generic) was originally incorporated in the year 1994 under the name of Welplace Portfolio & Financial Consultancy Services Limited (Welplace) which was taken over by Generic Engineering and Construction Private Limited (GECPL) in November 2016 and later renamed to Generic in FY17, wherein the construction business of GECPL got transferred to Generic. GECPL was founded in 1967 by the Patel family and was engaged in construction activities (till the business transfer took place), and is currently engaged in leasing & hiring of various construction equipment. Generic is currently managed by Mr. Manish Patel (son of Mr. Ravilal Patel) and his family along with Mr. Tarak Gor, and is engaged in construction of various residential, commercial and industrial projects mainly in Maharashtra. The company is awarded with various certifications viz. ISO 14001:2015, OHSAS 18001:2007 and

ISO 9001:2015, whereas its registered office is located at Vikhroli in Mumbai, Maharashtra. Generic was listed on BSE in October 2015. Currently, GECPL has invested 45.11% of equity stake in Generic.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	64.81	138.98
PBILDT	6.34	20.33
PAT	2.24	11.50
Overall gearing (times)	0.57	0.22
Interest coverage (times)	2.74	9.07

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

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.*

Analyst Contact:
Name: Mr. Ashish Kambli
Tel: 022-67543684
Email: ashish.kambli@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	18.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	24.00	CARE BBB; Stable / 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	18.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (13-Nov-17)	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	24.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (13-Nov-17)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691