CARE Ratings
Professional Risk Opinion

Generic Engineering Construction and Projects Limited

December 31, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	18.00	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	24.00	**CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/A Three Plus)**	**Reaffirmed**
Total Facilities	**42.00 (Rupees Forty Two crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Generic Engineering Construction and Projects Limited (Generic), continue to derive strength from the company's long track record of operations in construction activities with healthy execution track record and reputed clientele, highly experienced management in construction activities and its healthy order book position. Further, the ratings continue to take into account its comfortable capital structure & debt coverage indicators, growing scale of operations and fluctuating albeit moderate profitability margins.

The ratings, however, continue to be constrained by working capital intensive nature of operations, susceptibility of margins to volatile raw material & labour prices, and presence in competitive & cyclical construction industry. The ratings also factored in the slow moving order book from its residential segment resulting into elongation in collection period and increased dependence on working capital bank borrowings.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.300 crore on a sustained basis
- Efficient management of working capital limits with utilization level reach below 75%

Negative Factors

- Deterioration in the capital structure with the overall gearing exceeding 0.70x on a sustained basis
- Deterioration in the debt coverage indicators with the total debt/GCA exceeding 2.50 times and interest coverage going below 5 times on a sustained basis
- Elongation in the collection period exceeding 140 days and inventory holding exceeding 60 days on a sustained basis

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, and it is currently being 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 26 years, 19 years and 14 years respectively. Currently, Generic is managed by Mr. Manish Patel, Mr. Jayesh Rawal and Mr. Tarak Gor who is associated with the Generic group since 2012.

Healthy order book position: Generic has healthy order book position of 36 open orders in hand worth Rs.1,114 crore as on September 30, 2019 (vis-à-vis Rs.543.30 crore as on November 1, 2018), which are expected to be executed by December 2022. However, about 50% of the total order book remained slow moving in nature and hence, timely execution of the same remains critical.

Comfortable capital structure & debt coverage indicators: The capital structure of Generic stood comfortable with the overall gearing stood at 0.22 times as on March 31, 2019 (vis-à-vis 0.22 times as on March 31, 2018), given the majority reliance on own funds. However, the capital structure has slightly deteriorated to 0.37 times as on September 30, 2019

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

due to increase in the debt level through additional bank borrowing of Rs.25 crore availed by the company in the form of working capital limits. Nevertheless, the capital structure continues to remain comfortable. Given this along with increased profitability, the debt coverage indicators also stood comfortable.

Growing scale of operations: The scale of operations of Generic remained in the range of Rs.64.81 crore to Rs.203.65 crore over FY17-FY19. Moreover, the same has been continuously increasing at a healthy compounded average growth rate (CAGR) of 77.26% over the same period, 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.97.41 crore as on March 31, 2018 to Rs.133.57 crore as on March 31, 2019 owing to healthy accretion of profits along with continuous infusion of equity by promoter group through conversion of warrants.

Moderate albeit improving profit margins: The PBILDT margin of Generic stood moderate in the range of 9.78% to 15.23% over FY17-FY19. Moreover, the same has been improving over the same period owing to continuously growing scale of operations. However, the same are remained susceptible to fluctuating material & labour costs as per the changing requirement on contract-to-contract basis, which may require different level of material & labour deployments. The PBILDT margin marginally improved from 14.63% in FY18 to 15.23% in FY19 owing to proportionate decrease in various overhead costs on the back of significant increase in scale of operations during the year. On account of the same the PAT margin has also remained fluctuating in the range of 3.46% to 8.27% during FY17-FY19. However, the same has slightly declined from 8.27% in FY18 to 7.67% in FY19 due to significant increase in the interest and depreciation cost during the year.

Key Rating Weaknesses

Working capital intensive nature of operations: The operations of Generic are working capital intensive in nature with majority of funds are blocked in inventory and debtors. However, led by higher suppliers' credit in the range of 83-100 days, the operating cycle stood moderate in the range of 43-60 days over FY17-FY19. However, the inventory holding has improved from 52 days in FY18 to 33 days in FY19 owing to faster turnaround on the back healthy execution during the year. On the other hand, the debtor's position has continuously increased from Rs.74.30 crore as on March 31, 2019 to Rs.89.14 crore as on September 30, 2019 which resulted in availment of additional working capital limits during H1FY20 along with higher utilization in the same.

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. 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: Generic 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 healthy cash balance of Rs.27.63 crore as on March 31, 2019. Its capex requirements are modular and expected to be funded by way of own funds. The average utilization of its working capital limits during past 12 months ended November 2019 stood at 89.49%. Further, the current ratio and quick ratio stood comfortable at 2.25 times and 2.03 times respectively as on March 31, 2019 (vis-à-vis 2.43 times and 2.10 times respectively as on March 31, 2018). However, the net cash flow from operating activities stood negative at Rs.32.42 crore in FY19 (vis-à-vis positive at Rs.0.01 crore in FY18)

Analytical approach: Standalone

Applicable Criteria

[CARE's Policy on Default Recognition]
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Methodology for Short-term Instruments]
[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 took over the construction business of Generic Engineering and Construction Private Limited (GECPL) in November 2016, thereafter which Welplace was renamed to Generic in FY17. 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 and GECPL are 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	H1FY20 (Prov.)
Total operating income	138.98	203.65	110.18
PBILDT	20.33	31.01	16.28
PAT	11.50	15.62	7.85
Overall gearing (times)	0.22	0.22	0.37
Interest coverage (times)	9.07	7.39	6.48

A: Audited; Prov.: Provisional

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 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	18.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Jan-19)	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+ (07-Jan-19)	1)CARE BBB-; Stable / CARE A3 (13-Nov-17)	-

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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