

Godha Cabcon and Insulation Limited

March 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remark
Long-term Bank Facilities	8.27	CARE BB- ; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	10.00	CARE A4 (A Four)	Reaffirmed
Total facilities	18.27 (Rs. Eighteen Crore and twenty seven lakh only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Godha Cabcon and Insulation Limited (GCIL) continues to remain constrained on account of its modest scale of operations in a highly fragmented and competitive industry and susceptibility of profitability margins to volatile raw material prices. The ratings, further, constrained on account of thin profitability, moderate solvency and liquidity position.

The ratings, however, continue to drive strength from extensive experience of the management.

The ability of the company to increase its scale of operations with speedy execution of contracts and improvement in solvency position with better management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations

During FY18, TOI of the company has declined by 13.04% over FY17 mainly on account of decline in sales of the conductors owing to lower tenders received from the government departments. The profitability of GCIL stood moderate marked by PBILD and PAT margin of 7.12% and 3.22% respectively in FY18. PBILD margin of the company has witnessed increasing trend in the last three financial years ended FY18. In 6MFY19, it has registered TOI of Rs.30.52 crore with PBILD margin of 4.06%. However, it has registered net loss in same time period.

Moderate solvency and liquidity position

The capital structure of the company stood comfortable at 0.91 times as on March 31, 2018, improved significantly from 3.72 times as on March 31, 2017 mainly on account of conversion of unsecured loans of Rs.5.28 crore to equity share capital coupled with accretion of profits to reserves and lower utilization of working capital bank borrowings as on balance sheet date. Further, the debt coverage indicators of the company stood comfortable with total debt to GCA at 5.24 times as on March 31, 2018 and interest coverage ratio stood moderate at 1.81 times in FY18.

The operating cycle of the company has increased from 58 days in FY17 to 94 days in FY18 mainly due to increase in collection period. The collection period has increased mainly due to delayed payment from the government departments. Due to high debtors, the liquidity ratios of the company stood comfortable with current ratio and quick ratio stood at 2.13 times and 1.89 times as on March 31, 2018. The cash and bank balance stood at Rs. 0.40 crore as on March 31, 2018.

Susceptibility of profitability margins to volatile raw material prices coupled with presence in a highly fragmented and competitive industry

The major raw materials required for manufacturing of conductors are electrolytic copper and aluminium, prices of which are highly fluctuating in nature and move in tandem with global demand-supply factors. Adverse changes in prices of the same would have an impact on the profitability margins of the firm. To mitigate its risk, GCIL stocks up raw material as and when it gets a favourable rate.

GCIL operates in a highly fragmented market with the presence of a large number of organized and unorganized players due to low entry barriers. Also, the presence of large players with an established marketing & distribution network leads to intense competition in the industry. Additionally, on account of rapidly changing dynamics of the end user industries (power distribution & transmission and electrical products) as well as competition from cheap Chinese imports, conductor manufacturers are required to upgrade their facilities at regular intervals resulting in regular capital commitments.

Key Rating Strengths

Extensive experience of the promoters

Mr. Dipesh Godha, director, has an extensive experience in this domain of around two decades in the electric industry and looks after the overall management of the company. Further, the directors are supported by qualified and experienced team of professionals for business operations of the company.

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

Listing on NSE Emerge Platform

On April 27, 2018, the company has brought IPO by issuing of 30 Lakh equity shares at Rs.33 (face value of Rs. 10 with a premium of Rs.23 each share) on the SME Platform of National Stock Exchange of India Limited. The main objects of the issue are for working capital requirement, general corporate purposes and issue expenses.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Short term bank facilities](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company

Indore (Madhya Pradesh) based, Godha Cabcon and Insulation Limited (GCIL) was formed by Mr. Dipesh Godha along with other family to take over the business of Godha cabcon and Insulation, a proprietorship concern which was formed in 2007. The business of the firm was acquired on July 15, 2017 by GCIL by converting proprietor capital and unsecured loans into the share capital of GCIL. Subsequently, in April 2018, the company has come out with an IPO and listed its shares on NSE SME platform.

GCIL is engaged in the business of manufacturing of Triple Aluminium Conductors (TAC) and Aerial Bundled Cable (ABC). The manufacturing unit of the company is located at Sanwer Road, Indore with combined total installed capacity of 1000 Tons Per Month (TPM) as on March 31, 2018. The company participates in the tenders for supply of conductors and has longstanding association with Madhya Pradesh State Electricity Board (MPSEB) and also supplies conductors to private players in the industry.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	74.36	64.67
PBILDT	5.06	4.60
PAT	2.08	1.98
Overall gearing (times)	3.72	0.91
Interest coverage (times)	7.27	5.24

Status of non-cooperation with previous CRA: Nil

Any other information: None

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 Abhishek Jain

Tel: 0141-4020213/14

Mobile: +91 9251265875

Email: abhishek.jain@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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Term Loan	-	-	Sept-2020	0.27	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	8.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	CARE A4

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-Term Loan	LT	0.27	CARE BB-; Stable	-	1)CARE BB-; Stable (16-Feb-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	8.00	CARE BB-; Stable	-	1)CARE BB-; Stable (16-Feb-18)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A4	-	1)CARE A4 (16-Feb-18)	-	-

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

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

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

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

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

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

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

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

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

CIN - L67190MH1993PLC071691

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