

Press Release

Guhan Sanjeevi Enterprises

March 26, 2019



Rating Reaffirmed, Withdrawn and Assigned

Total Bank Facilities Rated*	Rs. 11.90 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating '**ACUITE B** (read as ACUITE B) and short term rating of '**ACUITE A4**' (read as ACUITE A four) on the Rs. 9.40 crore bank facilities. Also, Acuité has assigned long-term rating of '**ACUITE B** (read as ACUITE B) on the Rs. 2.50 crore bank facilities of Guhan Sanjeevi Enterprises (GSE). The outlook is '**Stable**'.

Further, Acuité has withdrawn the long term rating of '**ACUITE B** (read as ACUITE B) on the Rs. 1.90 crore bank facilities of GSE.

GSE, established in 2003, is a Chennai based partnership firm engaged in the manufacturing and trading of sheet metal components used in the auto component industry and is also into manufacturing of Transmission towers for Tamil Nadu Electricity Board (TNEB) ranging 130KV to 230KV. The firm is managed by the partners, Mr. S.Vimal and Mrs. S. Prabula. Around 70 percent of the revenues are from manufacturing of transmission towers and remaining 30 percent from the auto components.

Analytical Approach

Acuité has considered standalone business and financial risk profile of GSE to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

Mr. S.Vimal and Mrs. S. Prabula have around a decade of experience in the said line of business. Further, the firm has developed healthy relations with reputed customers such as Rane Brake Linings Ltd, Brakes India Ltd and Tamil Nadu Transmission Ltd which helps it to get repeated business.

- **Moderate profitability**

GSE has shown moderate profitability during the period FY2016 to FY2018 under the study. The operating margin stood at 13.59 percent in FY2018 (PY: 12.09 percent) and the net profitability margins stood at 2.56 percent in FY2018 (PY: 2.06 percent). The operating profitability improved on account of decline in raw material cost in FY2018 as compared to FY2017.

Weaknesses

- **Declining revenue trend**

GSE has shown declining revenue trend in the period FY2016 to FY2018 under the study. The operating income declined to Rs.29.17 crore in FY2018 as against Rs.33.67 crore in FY2017. The revenues have declined mainly on account of fewer orders executed for Tamil Nadu Government in FY2018 as compared to FY2017.

- **Weak financial risk profile**

The financial risk profile of GSE is below average marked by modest net worth and weak coverage indicators. The tangible net worth stood at Rs.2.72 crore as on 31 March, 2018 (PY: Rs.2.23 crore). The debt/equity ratio stood high at 6.91 times as on 31 March, 2018 (PY: 6.89 times). The

total debt of Rs.18.82 crore outstanding as on 31 March, 2018 consist of Rs.16.15 crore as loan against property and Rs.2.67 crore as working capital borrowings from the bank. The interest coverage ratio (ICR) stood at 1.26 times in FY2018 as against 1.24 times in FY2017. Debt/EBITDA stood high at 4.58 times in FY2018 as against 3.73 times in FY2017. TOL/TNW stood high at 12.73 times as on 31 March, 2018 (PY: 14.08 times) majorly on account of high dependence on working capital facilities. The net cash accruals stood at Rs. 0.85 crore in FY2018 (PY: Rs. 0.79 crore). Acuité believes that the financial risk profile is expected to be at similar levels on the back of modest accruals and working capital intensive operations over the medium term.

• Working capital intensity

The operations of GSE are working capital intensive marked by high GCA days of 437 in FY2018 (PY: 335 days). This is majorly on account of stretched receivables from the Tamil Nadu government pertaining to transmission tower business and also large amount of retention money kept for a year with the Tamil Nadu government. The receivable period stood at 288 days in FY2018 (PY: 197 days). Due to significant time lag in receivables the payment to suppliers is also further delayed. The creditor days stood at 274 in FY2018 (PY: 222 days). The average bank limit utilisation stood at 90 per cent for the last six months ended February, 2019. Acuité believes that the operation of GSE continues to be working capital intensive due to the industry nature, and delay in realization from the receivables.

Liquidity Position

GSE has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. It has generated cash accruals of Rs.0.85 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.60 crore over the same period. The cash accruals of GSE are estimated in the range of Rs.0.92-1.40 crore over the medium term, against which its repayment obligations are estimated to be Rs.1.02 crore. GSE's operations are highly working capital intensive as marked by gross current asset (GCA) days of 437, which lead to high utilisation of its working capital lines at about 98 percent. The current ratio of the GSE is moderate at 1.89 times as on March 31, 2018. Acuité believes that GSE's liquidity continues to be at similar levels over the medium term.

Outlook: Stable

Acuité believes that GSE will maintain a 'Stable' outlook and benefit over the medium term owing to its promoters' extensive experience and established relations with clientele. The outlook may be revised to 'Positive' if the net cash accruals increase substantially with improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve scalability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded expansion and working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	29.13	33.67	34.87
EBITDA	Rs. Cr.	3.96	4.07	3.25
PAT	Rs. Cr.	0.74	0.69	0.60
EBITDA Margin	(%)	13.59	12.09	9.31
PAT Margin	(%)	2.56	2.06	1.71
ROCE	(%)	20.51	24.32	41.72
Total Debt/Tangible Net Worth	Times	6.91	6.89	9.69
PBDIT/Interest	Times	1.26	1.24	1.26
Total Debt/PBDIT	Times	4.58	3.73	4.23
Gross Current Assets (Days)	Days	437	335	317

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Jan-2018	Cash Credit	Long Term	4.50	ACUITE B Issuer not co-operating*
	Term Loan	Long Term	1.90	ACUITE B Issuer not co-operating*
	Bank Guarantee	Short Term	3.00	ACUITE A4 Issuer not co-operating*
	Proposed Cash Credit	Long Term	2.50	ACUITE B Issuer not co-operating*
04-Nov-2016	Cash Credit	Long Term	4.50	ACUITE B / Stable (Suspension Revoked; Rating Assigned)
	Term Loan	Long Term	1.90	ACUITE B / Stable (Suspension Revoked; Rating Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Suspension Revoked; Rating Assigned)
	Proposed Cash Credit	Long Term	2.50	ACUITE B / Stable (Suspension Revoked; Rating Assigned)
29-Jul-2016	Term Loan	Long Term	1.90	ACUITE B- / Stable (Suspended)
	Cash Credit	Long Term	3.00	ACUITE B- / Stable (Suspended)
	Proposed Cash Credit	Long Term	4.00	ACUITE B- / Stable (Suspended)
	Bank Guarantee	Short Term	1.30	ACUITE A4 (Suspended)
	Proposed Bank Guarantee	Short Term	1.70	ACUITE A4 (Suspended)

*Issuer did not co-operate, based on best information available.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B / Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.90	ACUITE B (Withdrawn)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	6.00 (Revised from Rs. 3.00 cr)	ACUITE A4 (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.40	ACUITE B / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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