

Press Release

Globe Hi-Fabs LLP

November 19, 2020



Rating Reaffirmed & Withdrawn

Total Bank Facilities Rated*	Rs. 24.00 crores
Long Term Rating	ACUITE BB+/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 24.00 crore bank facilities of Globe Hi-Fabs LLP (GHF). The outlook is '**Stable**'.

Faridabad-based, Globe Hi Fabs LLP (GHF) (erstwhile Globe Hi Fabs) was established in the year 1965 as a partnership firm and later converted into a limited liability partnership in 2014. The firm was established by Mr. Kishan Kumar. Currently, the operations of the firm are being looked after by Mr. Rajiv Chopra and Mr. Aman Chopra. The firm is engaged in the manufacturing of aviation refueling equipment, construction of hydrant refueling systems and distribution of aviation ground refueling equipment in India. Further, the firm is about to venture into the business of setting up overhead fuel tanks in India with Fuelco Australia Private Limited.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of GHF to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and improving scale of operations**

GHF is promoted by Mr. Aman Chopra and Mr. Rajiv Chopra. The promoters have a combined experience over 6 decades in the aviation refueling equipment, construction of hydrant refueling systems and distribution of aviation ground refueling equipment. The top management of the firm is aided by an equally experienced second line of management personnel. The firm has been able to establish a long and healthy relationship with its customers and suppliers owing to the promoter's rich experience and the long track record of operations of over 55 years. Further, GHF has been able to improve its scale of operations year on year backed by repeated orders by its customers as seen by the turnover of Rs. 51.24 crores as on 31st March 2020 as against Rs. 36.00 crores as on 31st March 2019 and Rs. 24.61 crores as on 31st March 2018. The current year revenues of GHF stood at ~Rs. 20.95 crores till September 2020.

Acuité believes GHF will continue to benefit over the medium term from its longstanding association with its key supplier as well as customers.

- **Above average financial risk profile**

The financial risk profile of the firm is above average marked by average net worth, gearing and healthy debt protection metrics. The net worth declined to Rs. 8.89 crores as on 31 March, 2020 as against Rs. 9.36 crores as on 31 March, 2019 including Rs. 3.86 crore of unsecured loans as quasi equity as the same has been subordinated to the bank. The gearing improved from 0.39 times as on 31 March, 2020 to 0.91 times as on 31 March, 2019 on account of steady accruals. The total debt of Rs. 3.45 crores outstanding as on 31 March, 2020 comprises long term debt of Rs. 0.21 crores and Rs. 2.84 crores as a working capital facility from the bank. The interest coverage ratio declined to 2.54 times in FY2020 as against 2.98 times in FY2019. NCA/TD ratio has increased to 0.69 times in FY2020 as against 0.35 times in FY2019.

Weaknesses

- **Working Capital Intensive Operations**

GHF's working capital cycle is intensive in nature as reflected by the Gross Current Asset (GCA) of the firm which is around measured to be around 4 months ~112 days in FY2020 as compared to 163 days in the previous year due to long inventory holding period which is evident by inventory levels of 75 days in FY2020 as against 71 days in FY2019. The debtor collection period of GHF improved significantly as it stood at 17 days for FY2020 as compared to 92 days in FY2019. Further, the creditor collection period stood at 18 days as on March 2020. The above is on account of the aftermath of the pandemic wherein the Q4 sales of the firm, which is usually high were muted therefore impacting the aforementioned figures. The average bank limit utilization of the firm for the last 6 month period ending on 30st Sep 2020 stood at around 80.46%. Acuité believes that GHF's credit risk profile will remain dependent on its ability to manage its working capital requirements over the near to medium term.

- **Customer Concentration Risk and lack of revenue visibility**

GHF faces customer concentration risk as around 60 percent of the firm's total sales in FY2020 was generated via top two customers viz. Indian Oil Corporation Limited and Indian Oil Skytanking limited while the same trend continued in the previous years as well. Moreover, the current unexecuted order-book position of the firm stood low at Rs. 14.93 crores for the current year, which has caused a decline in revenue visibility of the firm. GHF operates in an industry with a tender based nature of operations which makes the firm dependent on repeated orders from the clients to sustain the scale of operations. Further, the industry is regulated by norms from various regulatory authorities. However, the risks are mitigated to a certain degree due to long track record of operations of the firm.

Acuité believes that periodic replenishment of the order-book position and customer diversification will remain the key to the improvement in the business risk profile of the firm.

Rating Sensitivity

- Significant improvement in the scale of operations with improvement in profitability, improvement of the financial risk profile and working capital operations.
- Deterioration in working capital or financial risk profile due to debt-funded capex

Material Covenants

None

Liquidity position: Adequate

GHF has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 2.37 crore for FY2020 against debt obligations of Rs. 0.21 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.1.45 crore to Rs. 2.50 crore during FY2020-22 against no major repayment obligations. However, the firm is in the process of venturing into a new project of installing fuel tanks which will required the initial capital expenditure to the tune of Rs. 2.50-Rs. 5.00 crores. The firm's working capital operations are moderately intensive, marked by Gross Current Asset (GCA) of 113 days for FY2020. The firm maintains unencumbered cash and bank balances of Rs. 0.14 crore as on 31 March, 2020. The current ratio stood at 1.11 times as on 31 March, 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against no major debt repayments over the medium term, however, going forward the same maybe impacted by the abovementioned prospective capital expenditure of the firm.

Outlook: Stable

Acuité believes that GHF will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the firm registers substantial and sustained growth in revenues from the current levels while maintaining its operating margins and improvement in the capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	51.24	36.00
PAT	Rs. Cr.	1.96	2.82
PAT Margin	(%)	3.83	7.84
Total Debt/Tangible Net Worth	Times	0.39	0.91
PBDIT/Interest	Times	2.54	2.98

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Aug-2019	Cash Credit	Long Term	4.00	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
	Working Capital Term Loan	Long Term	0.53	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
	Packing Credit	Short Term	4.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.47	ACUITE BB+/Stable (Reaffirmed)
26-Dec-2018	Cash Credit	Long Term	4.00	ACUITE BB/ Stable (Upgraded from ACUITE BB-/Stable)
	Working Capital Term Loan	Long Term	1.00	ACUITE BB/ Stable (Upgraded from ACUITE BB-/Stable)
	Packing Credit	Short Term	4.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Upgraded from ACUITE A4)
24-Mar-2018	Cash Credit	Long Term	4.00	ACUITE B+ / Stable (Upgraded from

				ACUITE B/Stable)
Working Capital Term Loan	Long Term	1.00	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)	
Packing Credit	Short Term	4.00	ACUITE A4 (Reaffirmed)	
Bank Guarantee	Short Term	10.00	ACUITE A4 (Assigned)	

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00 (Revised from Rs. 4.00 Cr.)	ACUITE BB+/ Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Reaffirmed)
Proposed long term	Not Applicable	Not Applicable	Not Applicable	0.47	ACUITE BB+ (Withdrawn)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	0.53	ACUITE BB+ (Withdrawn)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nikhilesh Pandey Rating Analyst - Rating Operations Tel: 011-4973 1304 nikhilesh.pandey@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes

no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.