

Press Release

Gencor Pacific Auto Engineering Private Limited

September 26, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 17.46 Cr.
Long Term Rating	SMERA B- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA B-**' (read as **SMERA B minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 17.46 crore bank facilities of Gencor Pacific Auto Engineering Private Limited. The outlook is '**Stable**'.

Gencor Pacific Auto Engineering Private Limited (Gencor), incorporated in 2009, began operations in 2010 and subsequently acquired a partnership firm M/s. GJ Engineering in 2011. The company manufactures aluminum castings for the automobile industry. The product portfolio of the company includes steering and starter motor brackets, end plates, alternator brackets (for four wheelers), gear boxes among others.

Key Rating Drivers

Strengths

- **Experienced and qualified management**

The directors of the company possess around three decades of experience in the auto component manufacturing industry.

- **Financial support from Group Company**

Gencor enjoys financial and operational support from the Hong Kong-based group company, Gencor Pacific Limited (GPL). The financial support has been in the form of 10 per cent and 8 per cent compulsorily convertible debentures of Rs. 10.00 crore as on 31st March, 2016. Further, additional compulsorily convertible debentures of Rs.3.31 crore at 8 per cent were availed in June 2016 by Gencor. Gencor procures key raw material - aluminum ingot from GPL for extended credit period. The outstanding creditors (GPL) stood at Rs. 8.50 crore as on 31 March, 2015, Rs. 9.23 crore as on 31 March, 2016 and Rs.18.62 crore as on 31 March, 2017 (Provisional).

- **Increasing and reputed clientele base**

The company deals with a reputed client base that includes Lucas TVS Limited and Comstar Automotive Technologies Private Limited. Some of the clients acquired in FY2016 include Visteon Automotive System India Pvt Ltd, Mando Hella and Hyoseong Electric India Pvt Ltd.

Weaknesses

- **Vulnerability of profit margins to fluctuations in raw material prices**

The profit margins are susceptible to volatility in raw material prices. The raw material constitutes around 45 percent of the total revenue during FY2015-16 while it stood at around 49 percent for FY2016-17 (Provisional). Any adverse impact in raw material prices will affect the profit margins of the company.

- **Susceptibility of profit margins to forex loss**

The profit margins of Gencor are susceptible to volatility in forex rates as the entire raw material is sourced from overseas sources through its group entity Gencor Pacific Ltd, Hong Kong.

- **Below average financial risk profile**

The operating profit margins increased from 0.63 percent in FY2014-15 to 2.92 percent in FY2015-16. For FY2016-17 (Provisional), the operating margin stood at 1.38 percent. However, the profit margin has been in the negative in FY2015-16 due to increase in depreciation to Rs. 1.30 crore and interest expenses during the year. The RoCE of Gencor is weak and declined from 4.04 per cent in FY2014-15 to -1.26 percent in FY2015-16. Considering the fully convertible debentures as debt, Gencor has high debt to equity ratio of 3.21 times in FY2015-16 as against 1.58 times in FY2014-15. The Interest Coverage Ratio (ICR) stood at 0.47 times in FY2015-16 as against 2.46 times in FY2015. For FY2016-17 (provisional), the ICR stood at 0.44 times.

- **Moderate scale of operations**

The scale of operations is moderate marked by revenue of Rs. 27.47 crore in FY2015-16 as against Rs. 22.59 crore a year earlier. For FY2016-17 (Provisional), the company achieved revenue of Rs.34.20 crore. The scale of operations has remained moderate on account of intense competition in the auto ancillary industry arising from several organised as well unorganised players in the industry.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that the outlook on Gencor will remain 'Stable' over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of further improvement in the scale of operations while maintaining profitability and efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in profitability or debt funded capex plan leading to a weak financial risk profile.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), Gencor reported net loss of Rs.3.46 crore on operating income of Rs.34.20 crore compared to net loss of Rs.2.20 crore on operating income of Rs.27.47 crore in FY2015-16. The net worth stood at Rs.4.18 crore as on 31 March, 2017 (Provisional) against Rs.7.64 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Apr-2016	Cash Credit	Long Term	INR 2	SMERA B- / Stable
	Cash Credit (Proposed)	Long Term	INR 1.4	SMERA B- / Stable
	Term Loan	Long Term	INR 8.99	SMERA B- / Stable
	Term Loan (Proposed)	Long Term	INR 1.78	SMERA B- / Stable
	Packing Credit	Long Term	INR 2.6	SMERA B- / Stable
	Bank Guarantee	Short Term	INR 0.09	SMERA A4
	Letter of Credit	Short Term	INR 0.6	SMERA A4

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	8.66	SMERA B- / Stable
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	2.11	SMERA B- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.09	SMERA A4
Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	SMERA A4

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head –Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in Shalini Sekar Analyst - Rating Operations Tel: 022-67141146 shalini.sekar@smera.in	Varsha Bist, Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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