

Press Release

Gencor Pacific Auto Engineering Private Limited (GPAE)

May 22, 2018



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.21.16 Cr
Long Term Rating	SMERA B-/Stable (Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long term rating of '**SMERA B-**' (read as SMERA B minus) and short term rating of '**SMERA A4**' (read as SMERA A four) to the Rs.11.79 crore bank facilities. Further, SMERA has assigned long term rating of '**SMERA B-**' (read as SMERA B minus) to the Rs.9.37 crore bank facilities of Gencor Pacific Auto Engineering Private Limited (GPAE). The outlook is '**Stable**'.

Gencor Pacific Auto Engineering Private Limited (GPAE), incorporated in 2009, started its operations in 2011 by acquiring a partnership firm M/s. GJ Engineering. The company is engaged in manufacture of aluminum castings for the automobile industry. The product portfolio of the company includes steering motor brackets, starter motor brackets and end plates, alternator brackets (for four wheelers), gear box, among others.

Key Rating Drivers

Strengths:

Financial support from parent company: The company has one of their group companies in Hong Kong named 'Gencor Pacific Limited (GPL)'. GPL provides financial support in the form of compulsory convertible debenture of Rs.13.30 crore. GPAE's key raw material, mainly, aluminum ingot is procured from GPL (Hong Kong). However, the company enjoys extended credit period from GPL evidenced by creditors outstanding of Rs.15.26 crore as on March 31, 2018.

Increasing and reputed clientele base: The company deals with reputed clients such as Lucas TVS Limited and Comstar Automotive Technologies Pvt Ltd, Visteon Automotive System India Pvt Ltd, Hanon Systems and Hyosung among others. Revenues have increased at a compound annual growth rate of about 23 percent over the past four years through FY2018 to Rs.42.32 crore from Rs.18.32 crore. SMERA believes that GPAE will continue to enjoy repeat business orders as reflected by its increasing revenues.

Weaknesses:

Vulnerability of profit margins to fluctuation in raw material prices: GPAE's profit margins are susceptible to volatility in raw material prices. Raw material constitutes about 45 percent of the cost of sales. The operating margins are volatile at 3.93 percent in FY2016 and declined to 0.01 percent in FY2017. Any adverse change in raw material prices will affect the profit margins of the company.

Below average financial risk profile: The financial risk profile of GPAE is marked by high gearing and weak debt protection metrics. The gearing is high at 7.26 times as of March 31, 2017 and interest coverage ratio at 0.29 times. SMERA believes that the financial risk profile continues to be weak on account of low profitability margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profile of GPAE to arrive at this rating.

Outlook: Stable

SMERA believes that the outlook on GPAE will remain 'Stable' over the medium term on account of its experienced management and parent support. The outlook may be revised to 'Positive' in case of significant improvement in its profitability and capital structure while improving its revenues. Conversely, the outlook may be revised to 'Negative' in case of any further deterioration in its profitability leading to pressure on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	42.32	34.29	27.47
EBITDA	Rs. Cr.	2.77	0.00	1.08
PAT	Rs. Cr.	(2.67)	(4.05)	(2.09)
EBITDA Margin	(%)	6.55	0.01	3.93
PAT Margin	(%)	(6.32)	(11.81)	(7.02)
ROCE	(%)	0.09	(3.95)	(0.3)
Total Debt/Tangible Net Worth	Times	22.96	7.26	3.21
PBDIT/Interest	Times	1.11	0.29	0.61
Total Debt/PBDIT	Times	8.24	31.83	20.15
Gross Current Assets (Days)	Days	115	145	189

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

None

Any other information:

Not Applicable

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. Crore)	Ratings/Outlook
04-April-2016	Cash Credit	Long Term	2.00	SMERA B-/Stable (Assigned)
	Proposed Cash Credit	Long Term	1.40	SMERA B-/Stable (Assigned)
	Term Loan	Long Term	8.99	SMERA B-/Stable (Assigned)
	Proposed Term Loan	Long Term	1.78	SMERA B-/Stable (Assigned)
	Bank Guarantee	Short Term	0.09	SMERA A4 (Assigned)
	Packing Credit	Long Term	2.60	SMERA B-/Stable (Assigned)
	Letter of Credit	Short Term	0.60	SMERA A4 (Assigned)
26-Sep-2017	Cash Credit	Long Term	3.00	SMERA B-/Stable (Reaffirmed)
	Term Loan	Long Term	8.66	SMERA B-/Stable (Reaffirmed)
	Proposed Term Loan	Long Term	2.11	SMERA B-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.09	SMERA A4 (Reaffirmed)
	Packing Credit	Short Term	3.00	SMERA A4 (Reaffirmed)
	Letter of Credit	Short Term	0.60	SMERA A4 (Reaffirmed)

***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 (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.10	SMERA B-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	9.37	SMERA B-/Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.69	SMERA A4 (Reaffirmed)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: +91-22-6714 1107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Praveen Kumar, Analyst - Rating Operations Tel: +91-22-6714 1148 Praveen.kumar@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA 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. SMERA 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, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA 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. SMERA 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.smera.in) for the latest information on any instrument rated by SMERA.