

Press Release

Galva Decoparts Private Limited

February 10, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	92.80	ACUITE BB+ Stable Upgraded	-
Bank Loan Ratings	7.20	-	ACUITE A4+ Upgraded
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE B+**' (read as **ACUITE B plus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 100.00 crore bank facilities of Galva Decoparts Private Limited (GDPL). The outlook is 'Stable'.

Rationale for the rating upgrade

The rating upgrade takes into account the extensive experience of the promoters of more than four decades in the industry, increase in capacity coupled with improved revenue from operations and healthy order book for the month ended December 2021. The capacity of the company increased from 87,600 rounds per annum in FY2019 to 2,33,600 rounds per annum in FY2021, followed by improved revenue with CAGR of ~17.50 percent since FY2019. Further, the revenue of the company for the nine-month period ended December 2021 stood at Rs. 134.76 Cr. However, the rating is constrained due to the modest financial risk profile and modest debt protection metrics and the company's dependence on creditors to fund working capital requirements. Further, increase in creditor days will be a key rating sensitivity.

About the Company

Gujarat based GDPL was incorporated in 2007 under the directorship of Mr. Bhawanji Chheda and Mr. Hardik Chheda. The company was initially established as a proprietorship concern in 1979. GDPL is engaged in electroplating of ABS plastic components with chrome / satin finish. ABS plastic components with Chrome / Satin Finish is used for decorative parts in cars, bikes, refrigerators, washing machines, bath room fittings, etc. The company also does metalizing on fast moving consumer goods (FMCG) caps - lipstick, face powder, lip gloss and nail paint on job work basis from sister concern M/s Shree Hardik Plating Technology. The company has three manufacturing plants, two of which are located at Vapi and one at Zaroli in Gujarat. Further, the company has a marketing arm in Germany by the name Galva Deco parts GmbH (GDG) in Wolfsburg.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of GDPL for arriving at the rating.

Key Rating Drivers

Strengths

- **Extensive management experience and long track record of operations:**

Incorporated as a proprietorship concern in 1979 by Mr. Bhawanji Chheda, GDPL has an operational track record of more than four decades. Mr. Hardik Chheda joined the company in 1998. GDPL was converted into a Private Limited Company in 2007. GDPL's operations are managed by Mr. Bhawanji Chheda and Mr. Hardik Chheda. The company has been able to establish three plants in Gujarat, three customer support warehouses and one marketing arm in Germany (GDG). Further, the process and the products of the company are certified by International Organization of Standardization (ISO). GDPL is also a tier 2 supplier of Hyundai.

Acuité believes that the extensive experience of the management along with its established track record of operations and relationships with its clients will strengthen the business risk profile over the medium term.

- **Improving operating performance:**

The revenue of the company increased from Rs. 80.44 Cr in FY2019 to Rs. 130.35 Cr in FY2021. The increase in revenue can be attributed to the increase in capacity and demand. The capacity of the company was increased from 87,600 rounds per annum in FY2019 to 2,33,600 rounds per annum in FY2021. The capacity utilization in FY2021 stood at 70 percent. Further, the revenue of the company in the nine-month period ended December 2021 stood at Rs. 134.76 Cr. Additionally, the revenue increase has resulted into improved operating profit from ~16 percent in FY2019 to ~22 percent in FY2020 and FY2021. Further, the operating profit for the nine-month period ended December 2021 stood at ~22.71 percent.

Acuité believes GDPL's ability to maintain its improved scale of operations along with profitability will be a key rating sensitivity.

- **Reputed clientele and healthy order book:**

The company supplies to automobile and FMCG sectors. GDPL earned ~95 percent of its revenue from the automobile sector and balance from FMCG sector. The company has an established clientele and caters to customers like Hyundai, Tata, Kia, Skoda, Bajaj and Voltas. However, this also makes GDPL susceptible to cyclicity in the automobile segment which is mitigated to some extent as it caters to multiple auto-manufacturers. Further, the company has a healthy order book of ~Rs. 250 Cr as on December 31, 2021. Additionally, starting next year the company will begin to supply to its overseas subsidiary, GDG to meet order requirements of Volkswagen and Grohe and expects to derive additional revenue of ~Rs. 2.00 Cr per month.

Weaknesses

- **Modest financial risk profile high gearing and modest debt protection metrics:**

GDPL has a modest financial risk profile marked by highly leveraged capital structure and modest debt protection metrics. The net worth of the company stood at Rs. 38.88 Cr as on March 31, 2021 against Rs. 37.52 Cr in the previous year. The total debt as on March 31, 2021 increased to Rs. 126.30 Cr against Rs. 108.20 Cr as on March 31, 2019. The debt consists of long term debt Rs. 93.12 Cr, USL from promoters Rs. 8.34 Cr and short term debt Rs. 24.84 Cr. The increase in debt can be attributed to expansion undertaken by the company. The capital expenditure incurred by the company was Rs. 21.60 Cr through 2019-2021, resulting into increase in capacity. Further, the company has availed ECLGS of ~Rs. 18.00 Cr in FY2022. Also,

GDPL's overseas subsidiary GDG is currently at nascent stage of operations with no revenue in FY2021 and is dependent on the GDPL for their operational expenses. GDPL has advanced ~Rs. 12.00 Cr to GDG until March 31, 2021.

GDPL follows an aggressive leverage policy with peak gearing of 3.25 times in FY2021 against 3.05 times and 2.61 times in FY2020 and FY2019 respectively. The total outside liabilities (TOL)/total net worth (TNW) stood at 4.39 times as on March 31, 2021 against 3.96 times and 3.40 times as on March 31, 2020 and March 31, 2019 respectively. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.32 times and 1.44 times as on March 31, 2021 against 2.08 times and 1.38 times as on March 31, 2020.

Acuite believes any further debt funded expansion that adversely impacts and deteriorates the financial risk profile will impart a negative bias to the rating.

• Susceptibility to inherent cyclicity in automobile industry and profitability due to input price volatility and forex rates:

The lower automobile sales volume during FY2021 impacted auto ancillary segment. The auto OEMs faced intermittent demand side challenges as well supply side constraints like slowdown in the supply of imported components and semiconductors. Since, GDPL derives 95 percent of its revenue from the auto industry, these constraints will adversely impact the revenue of the company. Further, the company imports ABS plastics from Korea, whereas raw materials like copper and nickel are procured from domestic players. The increase in these raw material prices will have an impact on the input costs. Further, import dependency for certain components renders GDPL susceptible to currency fluctuations and erratic supply movements. Also, the company does not maintain forward cover to hedge its exposure in foreign currency. The company incurred an exchange loss of Rs. 0.19 Cr in FY2021 against an exchange gain of Rs. 0.03 in the previous year.

Rating Sensitivities

- Higher than expected growth in revenue while maintaining profitability margins.
- Increased dependence on creditors to fund working capital requirements.
- Debt funded capital expenditure thereby adversely impacting the financial risk profile.

Material covenants

None.

Liquidity Position: Stretched

GDPL generated net cash accruals (NCA) in the range of Rs. 5.38 Cr to Rs. 17.29 Cr through 2019-21 against repayment obligations of Rs. 6.05 Cr to Rs.15.68 Cr during the same period. NCA going forward is estimated to be Rs. 22.93 Cr and Rs. 26.86 Cr, while its repayment obligations are expected to be Rs. 17.33 Cr and Rs. 20.17 Cr in FY2022 and FY2023 respectively. In FY2021 the gross current asset (GCA) days increased to 270 against 246 in the previous year. The inventory days increased to 151 in FY2021 from 134 in the previous year. The debtor days increased marginally from 128 in the previous year to 130 in FY2021. Despite the high GCA days the bank limit utilization of the company stood moderate at 78 percent for the nine-month period ended December 2021, due to high creditor days. The creditor days of the company was in the range of 217 – 246 through 2019-20. The elongated creditor days is expected restrain the company's liquidity position. Further, the company maintained cash balance of Rs. 0.16 Cr as on March 31, 2021 and March 31, 2020.

GDPL's liquidity position is expected to be stretched on account of low cushion between NCAs and repayment obligation and low unutilized working capital limits against elongated creditor position.

Outlook: Stable

Acuite believes that GDPL will maintain a 'Stable' outlook over the medium term due to experienced promoters, long-standing relationship with customers and improvement in scale

of operations. The outlook may be revised to 'Positive' in case the company registers substantial growth in revenues while achieving sustained improvement in operating margins thereby improving the financial risk profile and the liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of lower-than expected revenues and profit margins or debt funded expansion thereby adversely impacting the already average financial risk profile and unsustainable dependence on creditors for funding increased working capital requirements needed to scale-up operations.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	130.35	106.96
PAT	Rs. Cr.	1.44	(3.90)
PAT Margin	(%)	1.10	(3.64)
Total Debt/Tangible Net Worth	Times	3.25	3.05
PBDIT/Interest	Times	2.32	2.08

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

None.

Any other information

None.

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Oct 2021	Letter of Credit	Short Term	3.50	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.70	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Proposed Term Loan	Long Term	67.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	19.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.70	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Proposed Cash Credit	Long Term	5.10	ACUITE B+ (Downgraded and Issuer not co-operating*)
24 Jul 2020	Term Loan	Long Term	4.70	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	3.50	ACUITE A4+ (Issuer not co-operating*)
	Proposed Term Loan	Long Term	67.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.70	ACUITE A4+ (Issuer not co-operating*)
	Proposed Cash Credit	Long Term	5.10	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	19.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
30 Apr 2019	Cash Credit	Long Term	19.00	ACUITE BB (Issuer not co-operating*)
	Letter of Credit	Short Term	3.50	ACUITE A4+ (Issuer not co-operating*)
	Term Loan	Long Term	4.70	ACUITE BB (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.70	ACUITE A4+ (Issuer not co-operating*)
	Proposed Term Loan	Long Term	67.00	ACUITE BB (Issuer not co-operating*)
	Proposed Cash Credit	Long Term	5.10	ACUITE BB (Issuer not co-operating*)
19 Feb 2018	Cash Credit	Long Term	19.00	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	4.70	ACUITE BB (Issuer not co-operating*)
	Letter of Credit	Short Term	3.50	ACUITE A4+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.70	ACUITE A4+ (Issuer not co-operating*)
	Proposed Term Loan	Long Term	67.00	ACUITE BB (Issuer not co-operating*)
	Proposed Cash Credit	Long Term	5.10	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	19.00	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	4.70	ACUITE BB Stable (Assigned)
		Short		

05 Jan 2017	Letter of Credit	Term	3.50	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.70	ACUITE A4+ (Assigned)
	Proposed Long Term Loan	Long Term	67.00	ACUITE BB Stable (Assigned)
	Proposed Cash Credit	Long Term	5.10	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Cosmos Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE A4+ Upgraded (from ACUITE A4)
SVC Co-Op Bank Limited	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ Upgraded (from ACUITE A4)
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ Upgraded (from ACUITE A4)
Saraswat Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB+ Stable Upgraded (from ACUITE B+)
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ Stable Upgraded (from ACUITE B+)
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+ Stable Upgraded (from ACUITE B+)
Cosmos Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BB+ Stable Upgraded (from ACUITE B+)
Cosmos Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ Upgraded (from ACUITE A4)
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	2.01	ACUITE BB+ Stable Upgraded (from ACUITE B+)
Cosmos Bank	Not Applicable	Term Loan	Not available	Not available	Not available	15.79	ACUITE BB+ Stable Upgraded (from ACUITE B+)
Saraswat Bank	Not Applicable	Term Loan	Not available	Not available	Not available	19.00	ACUITE BB+ Stable Upgraded (from ACUITE B+)
							ACUITE BB+

HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	18.00	Stable Upgraded (from ACUITE B+)
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