

Press Release

Galva Decoparts Private Limited

November 01, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	5.20	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	94.80	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	110.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating at '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating at '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 100.00 Cr bank facilities of Galva Decoparts Private Limited (GDPL). Further, Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 10.00 Cr bank facilities of GDPL. The outlook is 'Stable'.

Rationale for the rating

The rating reaffirmation takes into account the consistent revenue growth marked by CAGR of 20 percent through FY2020-22, the promoter experience of more than 4 decades and reputed clientele including Tata, Seoyon E-HWA Automotive (Hyundai) and LS Automotive India. Further, the rating also, takes into account the capital expansion plans which shall add Rs. 24-30 Cr annual income from FY2024.

However, the rating remains constrained due to limited bargaining power over fluctuating raw material prices, increasing customer concentration as Seoyon E-HWA Automotive (Hyundai) contributed ~50 percent of the total revenue in FY2021 and FY2022 and aggressive leverage policy followed by the company marked by debt to equity of 2.94 times as on March 31, 2022. Going forward, the gearing is expected to remain above 2, since the expansion shall be funded through debt and unsecured promoter loans. In addition the rating is sensitive to the stretched liquidity position marked by high bank limit utilization and low buffer between net cash accruals and repayment obligations.

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 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.

Shree Hardik Plating Technology (SHPT) is also does metalizing of fast moving consumer goods (FMCG) caps - lipstick, face powder, lip gloss and nail paint.

Analytical Approach

The team has consolidated the standalone business and financial risk profiles of GDPL and SHPT together referred to as the 'Galva Group' (GG). The consolidation is in view of the common management, similar line of business and strong operational & financial linkages between the entities.

Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and established 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 Group 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 group 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.

- **Improvement in operating performance albeit decline in operating margins:**

The revenue of the group improved from Rs. 144.47 Cr in FY2021 to Rs. 212.51 Cr in FY2022. The group increased its capacity from 87,600 rounds per annum in FY2019 to 233,600 rounds per annum in FY2022. However, the operating margins of the company reduced from 22 percent in FY2020 and FY2021 to 16 percent. The operating margins decline is on account of increase in raw material prices, raw material accounts for 51 percent of the total revenue against 3-year average of 46 percent through FY2019-21. Increase in commodity prices like ABS plastics, copper, and nickel will have an impact on profitability due to limited bargaining power of the group. The aggregate price increase in the current year was about 15-20 percent, however, the company is expected to be compensated to the extent of 10-25 percent only towards raw material price rise; any price hike towards packaging and transportation shall not be reimbursed. Also, in FY2022 the company has incurred Rs. 2-3 Cr towards business development expenditure for overseas operations. However, the company has earned no revenue from its marketing arm in Germany in FY2022. GDPL has advanced ~Rs. 7.00 Cr to Galva Deco parts GmbH.

Acuite believes the profitability over the medium term will remain susceptible to fluctuating raw material prices due to the group's limited bargaining power.

Weaknesses

- **Average financial risk profile:**

Galva Group has an average financial risk profile marked by moderate net worth and high gearing and deteriorating coverage indicators. The net worth of the group stood at Rs. 54.20 Cr as on March 31, 2022 against Rs. 50.91 Cr in the previous year. The total debt as on March 31, 2022 was Rs. 159.50 Cr against Rs. 124.84 Cr in the previous year. The debt consists of long

term debt Rs. 122.32 Cr, USL from promoters Rs. 7.16 Cr and short term debt Rs. 30.02 Cr. Group has availed ECLGS of Rs. 28.00 Cr in FY2022, housing and car loan of Rs. 9.30 Cr. Further, in FY2022 the group also availed a loan of Rs.11.91 Cr to fund its expansion. The fixed asset purchases for the current year accounted for Rs.12.50 Cr.

The group follows an aggressive leverage policy with peak gearing of 2.94 times as on March 31, 2022. Going forward, the group further intends to avail loan amounting to Rs. 26.00 Cr and introduce unsecured loan of Rs. 9.00 Cr in FY2023 to fund capital expansion in Chennai. The aggregate project cost is ~Rs. 35.00 Cr. The debt to equity is expected to remain above 2 times in FY2023 and FY2024.

• **Customer and sectoral concentration risk:**

The group supplies to automobile and FMCG sectors. GDPL earned ~90 percent of its revenue from the automobile sector and balance from FMCG sector. The group caters to an established clientele including Seoyon E-HWA Automotive (Hyundai), Tata, LS Automotive Kia, Skoda, Bajaj and Voltas. However, since FY2021 the customer concentration risk has been substantially augmented since the group derives about 50 percent of its revenue through Seoyon E-HWA Automotive (Hyundai).

Additionally, the capital expansion in Chennai is expected to further cater to the demands of Hyundai and Kia. The expansion shall additionally contribute ~Rs. 20-30 Cr to the total revenue of the group from FY2024.

• **Susceptibility to inherent cyclicality in automobile industry:**

The auto OEMs faced intermittent demand side challenges as well supply side constraints like slowdown in the supply of imported components and semiconductors. Since, Galva Group derives 90 percent of its revenue from the auto industry, these constraints will adversely impact the revenue of the company. The production of vehicles (across various categories) marginally increased by 1.2 percent from 22.6 million during FY2021 to 22.9 million during FY2022. The export number of vehicles (across various categories) increased by 35.8 percent from 4.1 million for FY2021 to 5.6 million for FY2022. The performance of the industry during FY23 will depend on the revival of volumes in the domestic economy and also increased demand from overseas markets.

Rating Sensitivities

- Higher than expected growth in revenue while maintaining profitability margins.
- Further deterioration in the financial risk profile due to stretch in the working capital cycle or reduction in revenue or profit margins.
- Decline in revenue and operating margins adversely impacting the ability of the company meet its repayment obligations.

Material covenants

None.

Liquidity: Stretched

The net cash accruals (NCA) of the group stood at Rs. 20.82 Cr against repayment obligation of Rs. 19.52 Cr in FY2022. Going forward the NCA in FY2023 and FY2024 is expected to be around Rs. 24.81 Cr and Rs. 29.89 Cr against repayment obligation of Rs. 23.08 Cr and Rs. 25.18 Cr respectively.

The gross current asset days stood at 245 in FY2022 against 293 in the previous year. The inventory and receivable days reduced to 226 in FY2022 from 264 in the previous year. The operations of the group are working capital intensive marked by high GCA days and fund based limit utilization at 85 percent for the six-month period ended September 2022. The Group's liquidity position is expected to remain stretched on account of low cushion between NCAs and repayment obligation and low unutilized working capital limits.

Outlook: Stable

Acuité believes that Group 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 further debt funded expansion thereby adversely impacting the already average financial risk profile.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	212.51	144.47
PAT	Rs. Cr.	4.18	2.09
PAT Margin	(%)	1.97	1.45
Total Debt/Tangible Net Worth	Times	2.94	2.45
PBDIT/Interest	Times	2.27	2.27

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>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Mar 2022	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	1.50	ACUITE A4+ (Reaffirmed)
	Proposed Term Loan	Long Term	2.01	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.70	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	15.79	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	19.00	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	18.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BB+ Stable (Reaffirmed)
10 Feb 2022	Cash Credit	Long Term	3.00	ACUITE BB+ Stable (Upgraded from ACUITE B+)
	Cash Credit	Long Term	1.00	ACUITE BB+ Stable (Upgraded from ACUITE B+)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Term Loan	Long Term	19.00	ACUITE BB+ Stable (Upgraded from ACUITE B+)
	Bank Guarantee	Short Term	1.70	ACUITE A4+ (Upgraded from ACUITE A4)
	Proposed Term Loan	Long Term	2.01	ACUITE BB+ Stable (Upgraded from ACUITE B+)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Cash Credit	Long Term	28.00	ACUITE BB+ Stable (Upgraded from ACUITE B+)
	Letter of Credit	Short Term	1.50	ACUITE A4+ (Upgraded from ACUITE A4)
	Term Loan	Long Term	18.00	ACUITE BB+ Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	15.79	ACUITE BB+ Stable (Upgraded from ACUITE B+)
	Cash Credit	Long Term	6.00	ACUITE BB+ Stable (Upgraded from ACUITE B+)
	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*)
		Long		ACUITE B+ (Downgraded and Issuer not co-operating*)

25 Oct 2021	Proposed Term Loan	Term	67.00	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 BB- (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*)
05 Jan 2017	Cash Credit	Long Term	19.00	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	4.70	ACUITE BB Stable (Assigned)
	Letter of Credit	Short 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+ Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+ Stable Reaffirmed
Cosmos Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE BB+ Stable Reaffirmed
Saraswat Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BB+ Stable Reaffirmed
Cosmos Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	14.80	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ Stable Assigned
Cosmos Bank	Not Applicable	Term Loan	Not available	Not available	Not available	15.50	ACUITE BB+ Stable Reaffirmed
Saraswat Bank	Not Applicable	Term Loan	Not available	Not available	Not available	19.00	ACUITE BB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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