

**Press Release**  
**Geco Special Machiners**  
 June 12, 2018  
**Rating Assigned**



<b>Total Bank Facilities Rated*</b>	Rs. 9.67 Cr.
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable

\* Refer Annexure for details

**Rating Rationale**

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.9.67 crore bank facilities of Geco Special Machiners (GECO). The outlook is '**Stable**'.

Geco Special Machiners (GECO) was set up in 1990 by Mr. M. Parthiban and Mrs. P. Bhuvaneshwari as partners. GECO is engaged in the manufacture of CNC & VMC machined components, laser cutting & bending components, hydraulic cylinder, air compressor & spares, honed tubes, engineering products, textile spares, valves components, machinery spares as per the customer requirement. GECO manufacturing facility is located in Singanailur (Tamil Nadu).

**Key Rating Drivers**

**Strengths**

**Experience of the Partners:**

The partners, M. Parthiban and Mrs. P. Bhuvaneshwari, have extensive experience in the machined component industry. The partners are involved in the functional areas of the business, and established longstanding relationships with suppliers and customers which helped in getting repeat orders from its clientele. It helped in improving the revenues at compound annual growth rate of 54 percent over four years through FY2018. It has vintage clientele of GE Oil and Gas India Pvt Ltd, Toshiba Machine Chennai Pvt Ltd., Flowserve India Controls Pvt Ltd., from Chennai, Bengaluru, Coimbatore among others who are associated with the firm for over a decade. Over and above, the firm started participating in government works and won successive work orders from Tamil Nadu Rural Development Agency for supply of machined components for garbage containers under Swachh Bharat Recycle Mission project for Kanchi and Karur Districts of Tamil Nadu. Acuite believes that the firm is expected to benefit from the partners' established presence and the relationship with the stakeholders in maintaining its stable business risk profile over the medium term.

**Comfortable financial risk profile:**

The financial risk profile is marked by healthy gearing (debt-equity), total outside liabilities to total net worth (TOL/TNW) and healthy debt protection metrics though underpinned by modest net worth. On provisional basis, the gearing is at 0.64 times as of March 31, 2018, an improvement from 3.15 times as of March 31, 2017. The significant improvement in the gearing is attributed to healthy profitability margins at about 12-15 percent over the past two years though underpinned by modest net worth at Rs.9.10 crore as of March 31, 2018. TOL/TNW is also healthy at 1.2 times as of March 31, 2018, an improvement from 4.43 times in FY2017. The debt protection metrics of interest coverage ratio and net cash accruals to total debt are healthy at 4.9 times and 0.87 times. The firm is implementing moderate debt-funded capital expenditure (capex) programme of Rs.7.80 crore funded out of term loan of Rs.5.00 crore for expansion and adding new products. The facility is expected to be operational by September 2018. Acuite believes that despite the proposed capex, the financial risk profile is expected to be comfortable over the medium term.

## Weaknesses

### Concentration in revenue profile:

GECO's revenues are skewed towards revenues from government order over the last two years. In FY2017 and FY2018, about 58 percent of its total revenues are from government business and from one single department on tender basis. The supplies under tender system are on annual contract basis, which leads to revenue concentration. The current revenues of Rs.42.90 crore in FY2018 is an improvement from modest revenues of Rs.8.38 crore in FY2016. The jump in the revenues is majorly driven by the government order. Acuite believes that though the revenue concentration is likely to neutralise with private business orders, but the revenue profile over the medium term continue to be dominated by the business from single client revenues under tender based business.

### Working capital intensive operations:

The working capital intensive operations of the firm are marked by high Gross Current Asset (GCA) days of about 170-180 over the past two years through FY2017. High GCA is marked by high receivable days of about 177 days in FY2017. Though it has improved to about 74 days in FY2018, the GCA is expected to be in the range of 120 days over the medium term attributed to the improving revenue mix from other clientele.

## Analytical Approach

Acuite has considered standalone business and financial risk profiles of GECO to arrive at the rating.

### Outlook: Stable

Acuite believes that the outlook on the rated facilities of GECO will remain 'Stable' over the medium term on account of its experienced management and reputed clientele. The outlook may be revised to 'Positive' if the firm achieves better than expected growth in revenues while maintaining its profitability margins and capital structure. Conversely, the outlook maybe revised to 'Negative' in case of any stretch in working capital management, or sharp decline in revenues and profitability affecting the liquidity.

## About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	42.95	33.97	8.38
EBITDA	Rs. Cr.	6.44	4.11	0.86
PAT	Rs. Cr.	4.36	2.79	0.46
EBITDA Margin	(%)	15.00	12.10	10.27
PAT Margin	(%)	10.15	8.21	5.47
ROCE	(%)	34.69	34.76	15.21
Total Debt/Tangible Net Worth	Times	0.64	3.15	2.21
PBDIT/Interest	Times	4.87	3.80	4.47
Total Debt/PBDIT		0.91	3.29	3.55
Gross Current Assets (Days)	Days	74	188	170

## 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-17.htm>
- ☐ Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- ☐ Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

## Note on complexity levels of the rated instrument

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

## Rating History (Upto last three years)

Not Applicable

## \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.87	ACUITE BB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB- / Stable
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	2.80	ACUITE BB- / Stable

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## About Acuité Ratings & Research:

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