

Press Release

Gowri Moulds and Dies

April 30, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.13.18 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and has reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.13.18 crore bank facilities of Gowri Moulds and Dies (GMD). The outlook is '**Stable**'.

Reason for upgrade

The rating is upgraded on account of growth in revenue, improvement in profitability margin and moderate financial risk profile of the firm. The operating income of the firm stood stable at Rs.10.20 crore in FY2020 as against Rs.8.44 crore in FY2019. The firm is growing at a compounded annual growth rate of 25 percent since 2017. Also, the firm's EBIDTA margin improved and stood at 43.47 percent in FY2020 as against 37.83 percent in FY2019. PAT margin stood at 14.11 percent in FY2020 as against 12.93 percent in FY2019. Also, the working capital management improved marked by GCA days of 102 days in FY2020 as against 153 days in FY2019. Acuite believes going ahead the firm is likely to sustain its growth over the medium term due to its established presence and experienced management.

About the Company

Maharashtra based Gowri Moulds and Dies (GMD) was established as a partnership firm in 1994 by Mr. Devaraya Sheregar and Mrs. Anitha Sheregar. The firm is engaged in manufacturing of O-Rings used in pipe fittings. The manufacturing unit is located in Taloja, Maharashtra.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of GMD to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experience management**

GMD was established in 1994 as a partnership firm, thus, have an operational track record of over two decades. The partners of the firm are Mr. Devaraya Sheregar and Mrs. Anitha Sheregar. The promoters have an experience of over two decades in the aforementioned line of business. Hence, long track records of operations and vast experience of management have helped the firm develop healthy relationship with its customers and suppliers.

Acuite believes that the firm will continue to benefit with the promoter's experience and its established presence in the industry, improving its business risk profile over the medium term.

- **Healthy profitability**

The firm has small scale of operations marked by operating income of Rs.10.20 crore in FY2020 as against Rs.8.44 crore in FY2019. The profitability of the firm stood healthy marked by operating margins of 43.47 percent in FY2020 as against 37.83 percent in FY2019. PAT margin stood at 14.11 percent in FY2020 as against 12.93 percent in FY2019.

• **Intensive working capital cycle**

Despite improvement, the firm has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 102 days in FY2020 as against 153 days in FY2019. The receivable days stood at 34 days in FY2020 as against 33 days in FY2019. The inventory days stood at 106 days in FY2020 as against 145 days in FY2019. The average bank limit utilization remained moderate at 42 percent for the past trailing 6 months ended February 2021.

Acuite believes that efficient working capital management will be crucial to the firm in order to maintain a healthy risk profile.

Weaknesses

• **Moderate financial risk profile**

The financial risk profile of the firm stood moderate marked by low net worth, moderate gearing and moderate debt protection metrics. The tangible net worth stood at Rs.5.47 crore as on March 31, 2020 (which includes quasi equity of Rs.1.82 crore) as against Rs.5.92 crore as on March 31, 2019 (which includes quasi equity of Rs.1.82 crore). The total debt of the firm stood at Rs.8.82 crore includes Rs.7.65 crore of long term debt, Rs.0.64 crore of unsecured loans and Rs.0.53 crore of short term debt as on March 31, 2020. The gearing (debt-equity) stood at 1.61 times as on March 31, 2020 as compared to 1.83 times as on March 31, 2019. Interest Coverage Ratio stood at 2.55 times for FY2020 as against 2.82 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 1.58 times in FY2020 as against 1.65 times in FY2019. Total outside Liabilities/Total Net Worth (TOL/TNW) stood high at 1.86 times as on March 31, 2020 as against 1.97 times on March 31, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood moderate at 0.30 times for FY2020 as against 0.19 times for FY2019.

Acuite believes that the financial risk profile of GMD will continue to remain moderate over the medium term.

• **Customer Concentration Risk**

The firm is exposed to customer concentration risk as around 61 percent of its total sales in FY2020 have been derived from a single customer - Finolex Industries Limited (FIL). However, GMD also caters to other reputed clientele such as HSIL (Hindustan Sanitaryware & Industries Limited), HIL Limited and Sanjay Technoplast, among others.

• **Risk of capital withdrawal**

GMD is exposed to the risk of capital withdrawal considering its partnership constitution. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- Improving the financial risk profile.

Material Covenants

None

Liquidity Position: Adequate

GMD has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.60- Rs.2.70 crore during the last three years through 2018-20, while its maturing debt obligations were Rs.0.82-Rs.1.10 crore over the same period. The firm's working capital operation is intensive marked by Gross Current Asset (GCA) of 102 days in FY2020 as against 153 days in FY2019. The firm maintains an unencumbered cash and bank balances of Rs.0.03 crore as on March 31, 2020. The current ratio of the firm stood modest at 1.10 times as on March 31, 2020. The average bank limit utilization stood moderate at 42 percent for the past trailing 6 months ended February 2021.

Outlook: Stable

Acuite believes that GMD will maintain a 'Stable' outlook over the medium term owing to its experienced management and track record of operations. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or

deterioration in its financial risk profile due to higher-than-expected debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	10.20	8.44
PAT	Rs. Cr.	1.44	1.09
PAT Margin	(%)	14.11	12.93
Total Debt/Tangible Net Worth	Times	1.61	1.83
PBDIT/Interest	Times	2.55	2.23

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Feb-2020	Cash Credit	Long Term	1.50	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long Term	6.00	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long Term	1.77	ACUITE BB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.61	ACUITE BB-/ Stable (Reaffirmed)
	Letter of Credit	Short Term	1.30	ACUITE A4+ (Reaffirmed)
30-Jan-2019	Cash Credit	Long Term	1.00	ACUITE BB-/ Stable (Assigned)
	Term Loan	Long Term	7.12	ACUITE BB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	3.76	ACUITE BB-/ Stable (Assigned)
	Letter of Credit	Short Term	1.30	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50*	ACUITE BB/Stable (Upgraded)

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	April-2016	11.75	April-2023	8.26	ACUITE BB/Stable (Upgraded)
Term Loan	March-2019	11.35	March-2022	1.77	ACUITE BB/Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE BB/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE A4+ (Reaffirmed)

* Sublimit of Cash Credit includes ODBD of Rs.1.00 crore.

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About Acuité Ratings & Research:

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