

Press Release

Geo Engineering Company Private Limited

August 07, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.6.00 crore bank facilities of Geo Engineering Company Private Limited (GECPL). The outlook is '**Stable**'.

Incorporated in 1980, Geo Engineering Company Private Limited (GECPL) is promoted by Mr. Jayprakash and family. The company is engaged in geotechnical works such as executing earthwork projects, soil and rock testing, piling, foundation and other consultancy services. GECPL undertakes work in Karnataka, Andhra Pradesh and Tamil Nadu.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

GECPL is promoted by Mr. Jayprakash (PHD in Foundation Engineering) who has an experience of more than three decades in civil construction activities. The company undertakes earthwork projects, soil and rock testing, piling, foundation and other consultancy services in Karnataka, Andhra Pradesh and Tamil Nadu. GECPL benefits from its reputed clientele such as Google India Private Limited, Fortis Healthcare, Larsen & Tubro Limited, Avenue Supermarts Limited, etc. among others.

Acuite believes that GECPL will continue to derive benefit from its experienced management and reputed clientele to achieve sustainable growth in the operating income.

• Improving revenue and profitability

GECPL's revenue grew at CAGR of ~75 percent over the last three years through FY2017 to FY2020. The company showed improvement in revenues marked by an operating income of Rs. 40.42 crore (Provisional) in FY2020 as against Rs.25.84 crore in FY2019, Rs.16.34 crore in FY2018 and Rs.7.50 crore in FY2017. Repeated orders from reputed customers is helping GECPL book high revenues. Current order in hand for the company stands at Rs.60.00 crore to be executed in the period of 10-12 months.

Further, GECPL's margin stood at 9.40 percent (Provisional) in FY2020 as against 10.75 percent in FY2019 and 7.24 percent in FY2018. The company reported Profit after Tax (PAT) of 3.89 percent (Provisional) in FY2020 as against 3.38 percent in FY2019 and 2.60 percent in FY2018.

Acuite believes that the growth in revenue and sustenance of its profitability margins are expected to support the overall growth of the company.

Weaknesses

• Average financial risk profile

GECPL has average financial risk profile marked by tangible net worth of Rs.7.76 crore as on 31 March, 2020 (Provisional) as against Rs. 6.18 crore as on 31 March, 2019. The gearing (debt to equity) stood at 1.52 times (Provisional) as on March 31, 2020 Prov as against 1.57 times as on March 31, 2019. The total debt of Rs.11.82 crore (Provisional) as on March 31, 2020 consists of a term loan of Rs.9.97 crore and working capital

borrowing of Rs. 1.85 crore. Interest Coverage Ratio (ICR) stood healthy at 6.91 times (Provisional) in FY2020 as against 4.65 times in FY2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.26 times (Provisional) as on 31 March, 2020 as against 1.96 times as on 31 March, 2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.23 times (Provisional) in FY2020 as against 0.19 times in FY2019.

Going forward, Acuite expects the financial risk profile to improve on account of improvement in operating performance.

• Working capital intensive operations

The company's operations are working capital intensive in nature marked by high Gross Current Asset (GCA) of 159 days Provisional in FY2020 and in FY2019. The collection period stood at 95 days (Provisional) as on March 31, 2020 and 2019. The inventory days stood at 20 days (Provisional) as on March 31, 2020 as against 31 days as on March 31, 2019. The working capital facility is fully utilised for the last six months ending June 2020.

Acuite believes that an efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) days.
- Significant improvement in scale of operation while maintaining profitability margin leading to an overall improvement in financial risk profile.

Material Covenants

None

Liquidity position: Healthy

The company has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. GECPL generated cash accruals of Rs.0.6-2.6 crore during the last three years through 2018-20, while the maturing debt obligations were in the range of Rs.0.1-1.80 crore over the same period. The cash credit limit of the company is utilised fully for the last twelve months ended in June, 2019. GECPL maintains cash and bank balances of Rs.1.30 crore (Provisional) as on March 31, 2020. The current ratio stood healthy at 1.87 times (Provisional) as on March 31, 2020. Acuite believes that the liquidity of the company is likely to improve over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuite believes that GECPL's outlook will remain 'Stable' over the medium term from its experienced management along with improvement in revenues and profitability. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or stretch in its working capital management leading to the deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	40.42	25.84
PAT	Rs. Cr.	1.57	0.87
PAT Margin	(%)	3.89	3.38
Total Debt/Tangible Net Worth	Times	1.52	1.57
PBDIT/Interest	Times	6.91	4.65

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>

- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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)

Not Applicable

*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	2.80	ACUITE BB /Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.31	ACUITE A4+ (Assigned)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	0.89	ACUITE BB /Stable (Assigned)

Contacts

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