

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

Acuité 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

Acuité 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.

Acuité 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.

Acuité 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, Acuité 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.

Acuité 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. Acuité 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

Acuité 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

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Grishma Muni Analyst - Rating Operations Tel: 022-49294035 grishma.muni@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.