

## Press Release

### GMP Technical Solutions Private Limited

February 25, 2023



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	31.00	ACUITE BBB   Stable   Reaffirmed	-
Bank Loan Ratings	22.00	-	ACUITE A3+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	53.00	-	-

## Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 53.00 crore bank facilities of GMP Technical Solutions Private Limited (GTSPL). The outlook remains '**Stable**'.

### Rationale for rating reaffirmation:

The rating reaffirmation considers improved performance in EPC division and continued sales traction in real estate segment of Vascon Engineers Limited (VEL). The revenue from EPC segment stood at Rs.412.96Cr in FY22 and has already reported revenue of Rs.454.73Cr during 9months of FY23 (revenue of 9months FY22 is Rs.282.27Cr). Average quarterly collection in real estate segment during 9 months of FY23 stood at Rs.13.5Cr and sold units worth Rs.64Cr during 9 months of FY23. However, the sales traction on VEL's 'Goodlife' project continues to remain below average. Acuite believes that the sales from Goodlife are expected to remain slower over the near to medium term as the project is far off from the city centre. VEL has successfully sold all units in other five of its projects and construction of few projects is almost completed which shows limited execution risk. Rating also draws comfort from the improving performance of VEL's subsidiary GMP technical solutions private Limited. GMP's turnover is Rs.194.39Cr as on March 31, 2022 and already achieved turnover of Rs.170Cr as per YTD figures till December, 2022. With healthy order book of Rs.228 Cr which are to be executed in next 12 months GMP is expected to further improve its operations and profitability. The healthy cash flows from EPC and Real estate segment has resulted in reduction in overall debt levels from Rs.159Cr as on March 31, 2022 to Rs.~143Cr as on December 31, 2022. Any slow down in receivables traction from real estate segment and any infusion of debt in real estate segment leading to negative impact on overall DSCR will be key monitorable aspect.

## About Company

GTSPL is a manufacturer of cleanrooms partitions, doors, fire rated doors and other cleanroom equipment. GMP also specialises in undertaking turnkey cleanroom projects for various industries like pharmaceutical, biotechnology, semiconductors, food processing, precision engineering, automobiles and optical manufacturing . It was established in 2005, and has completed over 1300 cleanroom projects. It caters to both domestic as well as export

markets. GTSP is an ISO 9001:2015 certified company and has two manufacturing facilities at Baddi (Himachal Pradesh) and Bhiwandi (Mumbai).

## About the Group

VEL is a Pune-based player, engaged in engineering, procurement and construction (EPC), real estate construction and development. The company was incorporated in January 1986 by Mr. Vasudevan. It commenced operations with the construction of Cipla's Patalganga in November 1986. Up to 1998, the company was a real estate contractor - executing contracts for third parties. VEL's real estate business comprises construction of residential and office complexes along with IT parks, industrial units, shopping malls, multiplexes, educational institutions and hotels. Under the EPC segment VEL executed construction contracts. It primarily caters to Government departments and authorities.

## Analytical Approach

### Extent of Consolidation

- Full Consolidation

### Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at the ratings, Acuite has considered the consolidated financial and business risk profile of VEL along with its subsidiaries, hereinafter referred to as the 'Vascon'. Consolidation is on account of the common management and business synergies among the group companies. Subsidiaries of the company include Marvel Housing Private Limited, Vascon Value Homes Private Limited, GMP Technical Solutions Private Limited, GMP Technical Solutions Middle East (Step Subsidiary), Almet Corporation Limited, Marathawada Realtors Press Release GMP TECHNICAL SOLUTIONS PRIVATE LIMITED Rating Reaffirmed Private Limited, Vascon EPC Limited. Associates and Joint Ventures of VEL include Phoenix Ventures, Cosmos Premises Private Limited, Vascon Saga Construction LLP, Vascon Qatar WLL, Mumbai Estates Private Limited and Ajanta Enterprises.

## Key Rating Drivers

### Strengths

#### Established track record of operation and experienced management

Vascon is a Pune-based player, engaged in real estate construction and development. The company was incorporated in January 1986, being in the construction business for over three decades, the company has gained strong technical and design expertise. Mr. R Vasudevan is the Chairman Emeritus of the company. He is a qualified engineer - BE (Civil) – from the University of Pune and has worked with organizations such as Maharashtra Industrial Development Corporation, Hindustan Construction Company Ltd, Atul Constructions Company Ltd and Beck Engineer Company Private Ltd. Mr. Siddharth Vasudevan is the Managing Director of the company. He is a qualified engineer – with Diploma in Engineering from Sinhgad Institute of Technology and has done Bachelors of Applied Sciences in Construction Management from Singapore. The company has a strong and capable second line of management with people who have been with the company since its inception.

#### Steady sales in Real estate projects and Improving Scale of execution and order book position in EPC:

VEL has reported sales of Rs.65.50Cr as on December 31, 2022. VEL has successfully sold five of its projects as on January, 2022. Rs.110Cr NCD's taken for Windermere project successfully repaid during October, 2022 and has collected Rs.40Cr from receivables. This healthy sales and collection has resulted in increase of cash flows during the 9 months of FY23. Revenue from EPC segment stood at Rs.454.43Cr as on December 31, 2022 against Rs.282.87Cr for the period December 31, 2021. This significant improvement in revenue is mainly due to improved

order book and execution of orders during the past 9 months till December, 2022. VEL has outstanding orders worth Rs.1,321Cr which are to be executed in next 6-12 months with more than 90% of the orders are from government entities. Acuité believes Vascon's ability to scale up its EPC segment without significantly adverse impact on its working capital efficiency will remain a key monitorable

### **Improved liquidity and Financial risk profile:**

VEL's has surplus flow from the real-estate segment and healthy advances from customers in GMP. This has led to prepayment of working capital. Currently VEL has total debt around Rs.80Cr in as per YTD figures December, 2023. The overall DCSR of the company stood at 1.31 times. VEL's liquidity is expected to be adequate in the medium term with adequate cash flows from the real-estate and EPC projects. Vascon's gearing stood at 0.19 times as on March 31, 2022 against 0.30 times in previous year. Total debt of vascon came down to Rs.159Cr inn FY22 against Rs.213Cr as on March 31, 2021. Total debt is further expected to come down in FY23 as VEL has prepaid its Non convertible debentures (NCD's) during October, 2022.

### **Weaknesses**

#### **Susceptibility to real estate cyclical and regulatory risks**

The real estate industry in India is highly fragmented with most of the real estate developers, having a city specific or region - specific presence. The risks associated with real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others, which could affect the operations. Vascon is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The Real Estate sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. This is primarily attributable to the high residential property prices due to persistent rollover of bank debt, which has a cascading effect on the overall finance costs. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developers' ability to significantly reduce prices to augment sales growth. Further, the industry is exposed to regulatory risk, which is likely to impact players such as Vascon, thereby impacting its operating capabilities.

#### **Vascon's EPC operations are working capital intensive**

Vascon's EPC operations are working capital intensive, primarily on account of high receivable which include retention money it has to keep with clients (10-15 percent). Vascon has significant receivables in the EPC segment, with recoverable due for more than 3 years amounting to Rs. 46.05 crore and receivables due for more than two years but less than three years of about Rs. 5.94 crore out of total receivable of Rs. 87.74 crore as on March 31, 2020. Acuité believes that the ability of the Vascon to realize the sticky receivables with ageing of above 3 years and faster realization of receivables from EPC projects going forward will be a key rating sensitivity.

### **ESG Factors Relevant for Rating**

The civil engineering industry has employees working in high risk settings, therefore, the safety of the employees and employment quality is a key material issue. Further, because of the working conditions, it is important that human rights of the employees is given due importance. The support and development that the companies render to the community is crucial in determining their societal impact. Other significant issues include compensation of the board and management personnel. Independence and diversity of the board, rights of the shareholders, financial audit and control, audit committee functioning and takeover defense mechanisms are key material issues as well. Vascon's board of directors has six members including two independent directors and one female director. Vascon has undertaken preventive and curative healthcare measures for its construction labour, with the help of Pune Municipal Corporation and NGO. Besides this Vascon also ran a COVID awareness program for its labourers. These efforts underscore Vascon's awareness about its social responsibilities.

## Rating Sensitivities

- Vascon's ability to scale up its EPC operations without deterioration in working capital cycle will remain a monitorable.
- Vascon's ability to maintain traction in key real estate projects will remain key rating sensitivity.

## Material Covenants

None

## Liquidity Position Adequate

Vascon's real estate operations are expected to generate adequate liquidity to cover its repayment obligations. Its cash inflows from EPC as well real estate segment are expected to in the range of Rs. 120 -160 crore against repayment obligations in the range of Rs. 40- 55 crore in FY2022-23. Although repayment obligations are primarily in the real estate segment support is available from Vascon's EPC operations which are expected to scale up on the back healthy orders in hand. However this is constrained to some extent as Vascon's EPC operations are working capital intensive as the company has to maintain some portion of the receivable as retention money (10 percent-15 percent). This makes the company dependent on external bank borrowings. Bank limit utilization for EPC segment stood almost full at ~90 percent for six month period ended November 2021. However the overall liquidity position of the company is expected to remain adequate on account of adequate cash flow against repayment obligations constrained to some extent by working capital intensive EPC operations.

## Outlook: Stable

Acuité believes that Vascon will maintain a 'Stable' outlook over the medium term owing to its experienced management, long operational track record and healthy EPC order book. The outlook may be revised to 'Positive' in case the company registers sustainable sales traction in their key real estate project along with higher than expected revenue from their EPC segment. Conversely, the outlook may be revised to 'Negative' in case of steep decline in sales traction in real estate project and slower than expected pick up in the EPC revenues leading to adverse impact on Vascon's liquidity profile.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	656.86	506.20
PAT	Rs. Cr.	35.92	(40.28)
PAT Margin	(%)	5.47	(7.96)
Total Debt/Tangible Net Worth	Times	0.19	0.30
PBDIT/Interest	Times	3.06	(0.01)

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

None

## Any Other Information

None

## Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

## Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Feb 2022	Proposed Bank Facility	Short Term	17.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB   Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB   Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Assigned)
	Proposed Cash Credit	Long Term	13.00	ACUITE BBB   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+   Reaffirmed
Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A3+   Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB   Stable   Reaffirmed
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE BBB   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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