



Press Release

Gemus Engineering Limited

July 27, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 15.50 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 15.50 crore bank facilities of Gemus Engineering Limited. The outlook is '**Stable**'.

The Kolkata-based Gemus Engineering Limited (GEL) was established in 1996, by Mr Shyam Bihari Sharma, Ms Pushpa Rani Sharma and Mr Rajeev Sharma. The company commenced operations in 2001 to manufacture customised ductile iron products and has installed capacity of 7000 MTPA per annum. The company caters to Indian Railways, National Engineering Industries Limited and local ductile iron dealers in Kolkata.

Key Rating Drivers

Strengths

- **Experienced management**

GEL was established in 1996 by the aforementioned. Mr. Sharma and family possess more than two decades of experience in the iron and steel industry.

- **Average financial risk profile**

The average financial risk profile is marked by high gearing, moderate debt protection metrics and net worth base. The gearing increased to 2.02 times in FY2017 (Provisional) compared to 1.47 times in FY2016 mainly due to increase in both short term and unsecured loan taken from the directors, which is not subordinated with the bank debt. The interest coverage ratio and DSCR stood at 1.49 times and 1.07 times in FY2017 (Provisional). The net worth stood at Rs.7.70 crore and Rs.7.20 crore in FY2017 (Provisional) and FY2016 respectively. The NCA/TD decreased to a modest 0.05 times in FY2017 (Provisional) compared to 0.07 times in FY2016 mainly on account of increase in the total debt. There has been a steady increase in the net cash accruals over the past three years. However, the NCA stood at Rs.0.79 crore and CPLTD at Rs.0.55 crore in FY2017 (Provisional). In FY2016, the NCA stood at Rs.0.73 crore and CPLTD at Rs.0.62 crore.

Weaknesses

- **Working capital intensive operations**

The nature of operations is working capital intensive marked by working capital cycle of 219 days in FY2017 (Provisional) and high Gross Current Asset days of 348 days and 226 days in FY2017(Provisional) and FY2016 respectively. Such high GCA days are mainly due to high inventory days - 191 days and 136 days in FY2017 (Provisional) and FY2016 respectively, due to the inherent cyclicity in the iron and steel industry.

- **Moderate scale of operations**

While the company commenced operations in 2001, the scale has been moderate at Rs.19.24 crore in FY2017 (Provisional), a decline from Rs.20.86 crore in FY2016.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that the outlook on GEL will remain stable over the medium term backed by its experienced management and healthy relations with suppliers. The outlook may be revised to 'Positive' in case of more than envisaged sales and profitability while efficiently managing its working capital cycle and improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve envisaged revenue and profitability and the working capital cycle gets stretched or the financial risk profile deteriorates.

About the Rated Entity - Key Financials

The company reported profit after tax (PAT) of Rs 0.40 crore on operating income of Rs.19.24 in FY2017 (Provisional) compared to PAT of 0 Rs.0.36 crore on operating income of Rs.22.93 crore in FY2016.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.50	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4

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