

Press Release

Gemus Engineering Limited

September 20, 2018



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

GEL was established in 1996 by Mr. Shyam Bihari Sharma, Mr. Pushpa Rani Sharma and Mr. Rajeev Sharma, and started operating since 2001. The company is engaged in manufacturing of customised ductile iron products with the installed capacity of 7000 MTPA per annum. The company has a registered office located in Kolkata (West Bengal).

Analytical Approach

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

Key Rating Drivers:

Strengths

- **Experienced management**

GEL was established in 1996, by Mr. Rajiv Sharma and family. He has more than two decades of experience in iron and steel industry.

- **Established relationships with customers and suppliers**

The company supplies customised ductile iron to reputed clients such as Indian Railway, National Engineering Industries Limited, Vishal Nirmiti Private Limited among others. The company also caters to local dealers in Kolkata.

- **Average financial risk profile**

GEL's average financial risk profile is marked by moderate gearing, debt protection metrics and net worth base. The gearing has decreased to 1.80 times in FY2018 (Provisional) as compared to 2.06 times in FY2017. The interest coverage ratio and DSCR stood at 1.90 times and 0.75 times in FY2018 (Provisional). The net worth stood at Rs.8.49 crore and Rs.7.56 crore in FY2018 (Provisional) and FY2017, respectively. The NCA/TD has increased but was modest at 0.08 times in FY2018 (Provisional) as compared to 0.06 times in FY2017. There has been a steady increase in the net cash accruals over the past three years, however, the NCA stood at Rs.1.18 crore against CPLTD of Rs.2.71 crore in FY2018 (Provisional) compared to Rs.2.08 crore against a CPLTD of Rs.0.89 crore in FY2017.

Weaknesses

- **Working capital intensive nature of operation**

GEL's nature of operations is working capital intensive marked by working capital cycle of 217 days and high Gross Current Assets (GCA) of 298 days in FY2018 (Provisional). Such high GCA day is mainly due to high inventory of 264 days and 255 days in FY2018 (Provisional) and FY2017 respectively due to inherent cyclical nature of iron and steel industry.

- **Moderate scale of operation**

Though the company started its operation since 2001, the scale of operation stood moderate at Rs.26.28 crore in FY2018 (Provisional) as against Rs.18.50 crore in FY2017.

- **Competitive and fragmented nature of industry**

Iron and Steel industry is a highly competitive industry due to low entry barriers which results in intense competition from both the organised as well as unorganised players in the industry.

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	26.28	18.50	20.86
EBITDA	Rs. Cr.	2.86	2.44	2.14
PAT	Rs. Cr.	0.74	0.36	0.36
EBITDA Margin	(%)	10.87	13.21	10.27
PAT Margin	(%)	2.83	1.96	1.72
ROCE	(%)	10.40	9.79	21.03
Total Debt/Tangible Net Worth	Times	1.80	2.06	1.47
PBDIT/Interest	Times	1.90	1.71	1.67
Total Debt/PBDIT	Times	5.27	6.13	4.69
Gross Current Assets (Days)	Days	298	349	226

Status of non-cooperation with previous CRA

Not Available

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Jul-2017	Cash Credit	Long Term	8.50	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	4.00	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	8.50	ACUITE B+ / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.62	ACUITE B+ / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE B +/ Stable (Assigned)

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About Acuité Ratings & Research:

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