

Press Release

Grip Engineers Private Limited

September 04, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.35.00 crore bank facilities of Grip Engineers Private Limited (GEPL). The outlook is '**Stable**'.

GEPL was set up in 1982 as a partnership firm and commenced business as a trader for selling various types of Cranes, Electric Hoists, Elevators among others. Subsequently, it is converted into private limited in 1988 and started its manufacturing unit at Faridabad in 1992. GEPL is engaged in manufacturing items like EOT Cranes, Goliath Cranes, Jib cranes, different types of Electric Hoists, among others. These cranes majorly used in the steel, power, construction, ports, Cement industries among others. GEPL has two manufacturing units in Faridabad (Haryana) and one in Medchal (Telangana).

Analytical Approach

Acuite has considered the standalone business and financial risk profile of GEPL to arrive at the rating.

Key Rating Drivers

Strengths

- Extensive experience of management in crane manufacturing**

GEPL was established in 1982 by the promoters, Mr. Hemant Lajpal, Mr. M Mani, Mr. Dwarakesh Lajpal, and Mr. Ranjit Arya. All the promoters have over three decades of experience in the crane manufacturing industry. The directors are well supported by the other professional team. Longstanding presence of nearly three decades, which helped to build healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business. The company has a reputed customer base like Tata Projects Ltd, Megha Engg & Infrastructure Ltd, and Bharat Heavy Electrical Ltd among others.

Acuite believes that the promoter's experience, vintage of operations, reputed clientele are expected to support in improvement of its business risk profile over the medium term.

- Moderate financial risk profile**

GRIP's financial risk profile is moderate, is aided by a moderate network, moderate gearing and high TOL/TNW and moderate debt protection metrics. The net worth of the company is Rs.12.94 crore as on 31 March 2019 as against Rs.12.87 crore as on 31 March 2018. The gearing stood healthy at 0.80 times as on 31 March 2019 and 0.84 times as on 31 March 2018. Total outside liabilities to tangible network (TOL/TNW) is high levels of 2.41 times as on March 31 2019 and 2.14 times March 31 2018. Debt protection metrics were also modest, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 1.49 times and 0.06 times, respectively, in FY2019 (provisional) vis-à-vis 2.09 times and 0.10 times for FY2018. The cash accruals of the company are estimated to remain around Rs.0.75-1.10 crore during 2020-22 while their repayment obligations would be around Rs.0.65-1.10 crore during the same period. The average fund-based working capital utilization stood at 84 percent for the past 6 months ended June 2020.

Acuite believes that the financial risk profile of the company is expected to remain moderate over the medium term on account of no significant capex plans over the medium term.

Weaknesses

• Working capital intensive nature of operations

GEPL's business is working capital intensive, as reflected in its gross current assets (GCAs) of 249 days as on March 31, 2019; the GCAs have been at similar levels in the past. High GCAs emanate from the company's large inventory of around 147 days and receivables of 92 days as on March 31, 2019. Working capital intensive operations lead to high utilisation of its bank lines at about 84 per cent over the past six months through June 2020.

Acuite believes that the working capital operations of the company will remain at these levels over the medium term being into capital goods industry and having stretched receivables from its customers.

• Profitability susceptible to fluctuations in raw material prices and Stiff Competition

The operating cycle/inventory conversion period for manufacturing crane (including designing) is around three to twelve months. The lengthy operating cycle keeps the margins vulnerable to fluctuations in steel prices due to the fixed-price nature of contracts with its customers. Though the company has a diversified customer base across industries, the performance is susceptible to cyclicity in investments by the end user industries. The diversification protects the company to some extent from a slowdown in demand prospects of any particular industry. Further Indian crane industry is largely fragmented and stiff competition from established foreign as well as domestic players.

Liquidity Position: Adequate

The company has adequate, marked by adequate net cash accruals to its maturing debt obligations. GEPL generated cash accruals of Rs. 0.75 to 1.00 crore during the last three years through 2018-19, while its maturing debt obligations were in the range of Rs.0.05- 0.12 crore during the same period. The cash accruals of the company are estimated to remain around Rs.0.75-1.10 crore during 2020-22 while their repayment obligations would be around Rs.0.65-1.10 crore during the same period. GEPL's business is working capital intensive, as reflected in its gross current assets (GCAs) of 249 days as on March 31, 2019. The average fund-based working capital utilization stood at 84 percent for the past 6 months ended June 2020. The company maintained cash and bank balances of Rs.0.10 crore. The current ratio stands comfortable at 1.28 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals against its repayment obligations.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile
- Improvement in working capital management and liquidity position

Material covenants

None

Outlook: Stable

Acuite believes that GEPL will maintain a stable outlook over the medium term owing to its experienced management and established relationship with customers. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of high debt-funded capex than expectation leading to deterioration in the financial risk profile and elongation of the working capital cycle impacting its liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	51.71	51.12
PAT	Rs. Cr.	0.07	0.37
PAT Margin	(%)	0.13	0.72
Total Debt/Tangible Net Worth	Times	0.98	0.84
PBDIT/Interest	Times	1.49	2.09

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Sector Entities- <https://www.acuite.in/view-rating-criteria-59.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 (OCC/ODBD)	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB+/Stable (Assigned)
Working Capital Term Loan (WCTL)	22-06-2020	Not Applicable	30-06-2024	1.59	ACUITE BB+/Stable (Assigned)
Working Capital Demand Loan (WCDL)	14-05-2020	Not Applicable	31-05-2022	0.90	ACUITE BB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.51	ACUITE BB+/Stable (Assigned)

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