Press Release

Globe Precision Industries Private Limited

April 09, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Ratings Action
Long Term Bank Facilities - Fund Based	42.64	IVR BB-/Negative Outlook (IVR Double B Minus with Negative Outlook)	Assigned
Short Term Bank Facilities - Non Fund Based	1.00	IVR A4 (IVR Single A Four)	Assigned
Total	**43.64**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Globe Precision Industries Private Limited (GPIPL) derives comfort from its experienced directors, Synergy benefit from other group companies present in auto component industry and established clientele albeit high customer concentration risk. However, the rating strengths are partially offset by its weak operating performance in 9MFY20 following growth in FY19, susceptibility to intense competition, on-going project expecting to have negative impact on liquidity and moderate capital structure with expected deterioration on account of debt availment plan to fund the capex & cyclicality in the automobile industry. The outlook remained negative due to expected moderation in the financial risk profile of the company in the near term.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income and profitability and improvement in working capital management leading to improvement in liquidity
- Sustenance of the capital structure and improvement in debt protection metrics marked by sustenance of TOL/TNW below 3x and interest coverage ratio at over 2x
- Timely completion of on-going capex

Downward factor:

- Moderation in operating income and/or profitability impacting the debt protection metrics and cash accruals
- Any stretch in working capital cycle driven by pile-up of inventory or stretched receivables or sizeable unplanned capital expenditure affecting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.8x and interest coverage to below 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced directors**

The director, Mr. Vinod Aggarwal and Mrs. Urmil Aggarwal is associated with the business since inception and has vast experience of around 25 years in the automotive component manufacturing industry. Extensive experience of the director underpin the business risk profile of the company and supports it to develop established relationship with its customers. Further, the directors are well supported by an experienced team of professionals.

- **Synergy benefit from other group companies present in auto component industry**

The promoter, Agarwal family has also incorporated other companies engaged in serving the automobile industry leaders. GPIPL has strong business synergy with its other group companies. Presence of other group companies in the same line of business provides synergical benefits to the company to an extent.

- **Established clientele albeit high customer concentration risk**

The company, over the years, has developed an established relationship with large OEM's. Key clients of the company include Ashok Leyland, International Tractor Ltd and Deepak Diesel Pvt Ltd. This is a strength for the company considering the B2B nature of the business and its diversified client base. However, top five customers contributes ~ 87% of its total revenue which indicates a customer concentration risk.

Key Rating Weaknesses

- **Susceptibility to intense competition**

GPIPL faces stiff competition from other well-established brands in automotive component manufacturing sector. Due to the inherent nature of business model, the operations and profitability are primarily dependent on the principal, Ashok Leyland & International Tractor Limited.

- **Weak operating performance in 9MFY20 following growth in FY19**

The company has achieved a healthy y-o-y growth of ~18% in FY19 as compared to FY18 driven by steady growth in its tractor component sales coupled with increased order flow from existing customers. However, the operating profit margin of the company remained moderate and range-bound in the range of 6-7% during FY19-22. Further, the PAT margin also remained thin in the range of 1-2% during the aforesaid period. However, during FY20, the performance of the company witnessed moderation due to slump in the automotive industry attributable to economic slowdown. During 9MFY20, the company has only achieved a PAT of Rs. 1.09 crore on total operating revenue of ~Rs.52 crore. Infomerics expects sharp moderation in scale of operation and profitability of the company in FY20. The profitability of the company is also expected to decline in FY20 given the Covid-19 outbreak situation in Q4FY20 and shut down of manufacturing facilities and competitive pressures amidst the muted demand from major customers.

- **On-going project expecting to have negative impact on liquidity**

The Company has undertaken an expansion plan and a new unit is being set-up at Village Kaundi, Baddi which is near to the existing unit and the supplier of Raw Material-forgings. The unit is envisaged to meet the demand from its existing customers in the Tractor industry- Mahindra & Mahindra, International Tractor. The unit is under implementation. The total envisaged cost of the project is Rs.21.63 crore to be funded with a Term Loan of Rs.14.16 crore (already granted by Punjab National Bank) and combination of unsecured loans from the promoters and internal accruals. The project was envisaged to commence operation from September, 2019, however considering the slow-down the COD is revised to December, 2020. Till December, 2019 the company has incurred only Rs.5.19 crore (~25%) of the total project cost. The orders for the major machinery have already been placed and part of the machinery is arrived at site besides the civil work for the installation of machines is completed at site. Infomerics believes, ongoing project will exert pressure on liquidity of the company amidst weak economic condition.

- **Moderate capital structure with expected deterioration**

The capital structure of the company remained moderate as on the past three account closing dates. Total indebtedness of the company marked by TOL/TNW remained satisfactory at 1.75X as on March 31, 2019. However, overall gearing ratio of the company remained moderate at 1.22x as on March 31, 2019. Moreover, the leverage ratios are expected to be deteriorated in the near term due to its debt funded ongoing capex. Furthermore, high near term repayment obligations of the company also restricts the financial risk profile of the company to a large extent.

- **Cyclicality in the automobile industry**

The automobile sector is largely correlated with the growth of the company and consumption sentiment of people. However, it varies to segment like passenger, commercial etc. At this juncture, Government of India has taken steps to reduce dependence on fossil fuel in terms introducing Electrical Vehicle policy and BS VI norms to reduce carbon footprint. The industry is subject to shorter cycles of business, and the impact of market forces is greater, for a longer time.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

The company's liquidity is stretched marked by its tightly matched accruals (of INR 3.72) to repayment obligations (of INR 3.35 Cr) in FY20. Further, its bank limits remained highly utilized to the extent of ~90% during the past 12 months ended March 2020 indicating a limited liquidity buffer. The ongoing capex is also expected to affect the liquidity position of the company in the near term.

About the Company

GPIPL was incorporated in 1986 by Mr. Vinod Aggarwal and Mrs. Urmil Aggarwal. It is engaged in the business of manufacturing of Axles, Gears and Shafts for Tractors and other automotive applications. The major raw material is Alloy Steel Forgings and the company is manufacturing wide variety of components which is variable according to its size, design, material specifications, etc. The forgings are purchased in numbers and the per unit cost is also not uniform as its cost depends upon its size, design, etc.

Financials: Standalone

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	97.63	115.37
EBITDA	6.12	7.71
PAT	1.62	2.68
Tangible Net worth	19.62	22.29
EBITDA Margin (%)	6.26	6.68
PAT Margin (%)	1.66	2.32
Overall Gearing Ratio (x)	1.06	1.22

**As per Infomerics Standards*

Status of non-cooperation with previous CRA: ACCUITE moved the rating to ISSUER NOT COOPERATING category vide its press release dated February 06, 2020 due to unavailability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	17.50	IVR BB-/Negative	-	-	-

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
2	Term Loan	Long Term	25.14	IVR BB-/Negative	-	-	-
3	LC/BG	Short Term	1.00	IVR A4			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities - CC	-	-	-	17.50	IVR BB- /Negative
Long Term Bank Facilities – Term Loan	-	-	March 2029	25.14	IVR BB- /Negative
Short Term Bank Facilities – LC/BG	-	-	-	1.00	IVR A4