Press Release

Glass Wall Systems (India) Private Limited [GWSPL]

April 13, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1	Long Term (Fund based)	85.00	IVR BBB+/ Stable Outlook; (IVR Triple B Plus with Stable Outlook)	Revised from IVR A-/ Stable Outlook; (IVR Single A Minus with Stable Outlook)
2	Short Term (Non-Fund Based)	165.00	IVR A2 (IVR A Two)	Revised from A2+ (IVR A Two Plus)
Total		**250.00**		

Details of facilities are in Annexure 1

Rating Rationale

The revision in the ratings reflects decline in revenue & interest coverage ratio during 1HFY20 coupled with significant amount of carry over contingent liabilities. The rating continues to derive strength from long track record & established presence in facade engineering, presence of reputed private equity investors, highly experienced managerial & technical team, stable operating profitability & comfortable debt protection parameters, established clientele and repeat orders from clients and healthy order book. The rating however is constrained by working capital intensive operation, concentration risk, volatility in input prices, and risks relating to cyclicality in real estate industry.

Key Rating Sensitivities:

- **Upward Rating Factor -** Substantial & sustained improvement in the revenue and/or EBITDA margin while maintaining the debt protection metrics.
- **Downward Rating Factor -** Any further decline in revenue and/or EBITDA margin leading to decline in debt protection metrics.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record & established presence in facade engineering

Mr. Jawahar Hemrajani and Mr. Kamlesh Choudhari established Glass Wall Systems as a partnership firm in 2002 and subsequently the constitution of the firm was changed to private limited company in 2010 as Glass Wall Systems (India) Private Ltd (GWSPL). Since then the company has scaled up its operation substantially and over the years successfully completed more than 100 projects with total area of more than 1 million sq. mtrs.

Presence of reputed private equity investors

During FY15, private equity fund managed by Motilal Oswal infused funds amounting to INR 55 Crore in the form of Optionally Convertible Preference Shares which were converted to equity in FY17.

Highly experienced managerial & technical team

The overall operations are managed by the promoter directors, Mr. Jawahar Hemrajani and Mr. Kamlesh Choudhari, who are assisted by a large team of qualified and experienced professionals in managing various functions of GWSPL on a day-to-day and project-to-project basis. The company has a strong in-house project management team comprising of about 496 employees which has increased from about 300 people in 2012. Most of the employees are Engineers, Architects, MBAs and CAs.

Stable operating profitability & comfortable debt coverage indicators

The EBITDA margin remained range bound at around 10% in FY19. The overall gearing ratio of the Company is comfortable & stands at 0.53x as at FY18 & 0.56x as at FY19.The Total outside liabilities to Tangible Net Worth of the Company has improved from 1.55x as at FY18 to 1.41x as at FY19. Total debt to GCA (in years) improved from 4.64x as at FY18 to 3.92x as at FY19.

Established clientele and repeat orders from clients

The company has executed a number of contracts for established and renowned companies. The clientele includes reputed names like Reliance for which it has executed projects like Antilia (residence for Mr. Mukesh Ambani), Reliance Petroleum Headquarter; Indiabulls Real Estate for projects like One Indiabulls Center and Indiabulls Finance Center, Indiabulls Blu; L&T group for L&T Infotech building and sub-contracted façade work for Wankhede Stadium; K. Raheja Universal for which it undertook and completed various projects. The company has also been contracted by the Lodha group for its best-in-class "World One" residential project which would be the tallest residential building in India. The company has also been able to get repeat orders from its clientele for their other projects.

However, in FY19 the Company had writing off unbilled revenue to the tune of INR 7.01 Crore and writing of Bad Debts of INR 6.62 Crore. Though the company has written off these balances, the company is still following up for recovery of these balances and is hopeful of making some recoveries.

Also, the debtors outstanding for more than six months as on March 31, 2019 constituted about 19.83% of the total outstanding debtors & 35% as on December 31, 2019.

Healthy order book

GWSPL has a robust order book with respect to geography, user segment and customer profile as at December 31, 2019 of INR 608 Crore, providing a strong medium term revenue visibility. This constitutes 1.74 times of FY19 turnover. Further majority of the orders in the order book are from reputed clients having a high credibility and good payment track record.

Key Rating Weaknesses

Decline in revenue & Interest coverage ratio:

The company witnessed a growth of ~12.51% in FY19. The total operating income increased from INR ~310 Crore in FY18 to INR 349 Crore in FY19. However, the total operating income for IHFY20 declined to INR ~109 Crore (IHFY19: INR185.14 Crore). The management contends that on recognizing the slowdown in domestic real estate segment, the company took a conscious decision to reduce its exposure to the segment thereby diversifying itself to infrastructure sector and export market. This has led to reduction in the revenue in H1FY20. However, the company is now focusing on orders from institutional & corporate clients having better credit quality where there is no risk attached on sale of the property constructed and thus to some extent shielded from the slowdown in the market. With the current conservative market approach on real estate sector, this move of the company is likely to ensure strong revenue generation in future. The interest coverage ratio stands comfortable at 3.45x in FY18 & 3.71x in FY19. However, the interest coverage ratio for IHFY20 declined to 1.89x (4.74x). The interest coverage declined due to decline in the absolute EBITDA arising out of reduction in operating income

Significant amount of carry over contingent liabilities

On the basis of VAT assessment completed for certain prior years, a provision of INR 22.15 Crore as of the Balance Sheet date (31-Mar-19) is required in respect of other years where assessments are not concluded. No provision is recognized by the Company in this regard on the basis that such amounts can be recovered from customers, which we are unable to ascertain. However, the Company has recognized this as a Contingent Liability.

Had the Company recognized a provision in respect of the said liability, ‘Other Expenses’ & ‘Provision for Litigation’ would have increased by INR 22.15 Crore and Tax expense & Net Profit would have reduced by INR 7.74 Crore & INR 14.41 Crore respectively, for the year ended March 31, 2019 & Shareholders’ Funds would have reduced by INR 14.41 Crore as of the Balance Sheet date. However, the Management expects the outcome of this to be in Company’s favour. Also as informed by the Management, the said issue is prevalent in the glass facade industry in general and not specific to the Company.

Working capital intensive operation

The business of GWSPL, by its nature, is working capital intensive and this is more so as it is executing multiple projects across varied locations. Some part of the working capital also remains blocked as retention money or in the form of fixed deposits as margin against non-fund based limits. To support the working capital requirement, the company is mainly relying on bank borrowings and high credit period being availed from its suppliers based on its long presence in the sector. The aggregate of average collection period, unbilled revenue days and inventory days decreased from 272 days in FY18 to 264 days in FY19 due to decrease in unbilled revenue days. However, average creditor days increased from 175 days as at FY18 to 205 days as at FY19.

Concentration risk

The top 10 customers accounted for 82% of total revenue (although slightly reduced from 89% in FY18), indicating a highly concentrated client-base portfolio.

The company is gradually diversifying geographically to other regions like Qatar, Telangana, Noida, Gurgaon, etc, thereby reducing concentration in Mumbai from 71% of the order book as on September 30, 2018 to 42% of the order book as on September 30, 2019.

Further with an attempt to diversify in infrastructure sector, the company is likely to focus more on institutional & corporate clients having better credit quality, thereby reduce its customer concentration risk going forward.

Volatility in input prices

The cost of raw material accounted 50-60% of the cost of production. Major raw materials used by the company are aluminium and glass which are usually sourced from large players in vicinity of manufacturing facilities. In case of glass the procurement is order specific, based on predetermined prices negotiated before tendering the job and is firm throughout the project lifecycle, thus eliminating the risk of volatility in price.

The company determines the order value taking into consideration the volatility in aluminium prices. Further any escalation in the prices of aluminium beyond a pre-determined level is passed on the customer thereby providing sufficient coverage against volatility in the prices of aluminium.

Risks relating to cyclicality in real estate industry

Although the company has an order book spreading across residential, commercial and orders from companies for their corporate offices, GWSPL uptil now used to remain exposed to cyclicality in the real estate sector.

However, the company is now focusing on orders from institutional customers where there is no risk attached on sale of the property constructed and thus is shielded from the slowdown in the market.

With the current conservative market approach on real estate sector, this move of the company is likely to ensure strong revenue generation in future.

The company is also concentrating on export orders, infrastructure orders and corporate clients thereby reducing its dependency on real estate sector and thus reducing the risk associated with real estate sector.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The Company has been earning a moderate level of GCA for the last few years and the same is expected to increase further with an increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The month-end utilization of working capital limits remained high at an average of 87% during the 12 months ended November30, 2019. Overall the liquidity position of the company is expected to be Adequate.

About the company

Mr. Jawahar Hemrajani and Mr. Kamlesh Choudhari established Glass Wall Systems as a partnership firm in 2002. The constitution of the firm was changed to a private limited company in 2010 as Glass Wall Systems (India) Private Ltd (GWSPL). Since then it scaled up its operations. During FY15, private equity fund managed by Motilal Oswal infused funds amounting to INR 55 Crore in the form of Optionally Convertible Preference Shares which were converted to equity in FY17. GWSPL is engaged in providing turnkey solutions as facade contractors. GWSPL provides solutions for all kinds of façade work which may involve architectural glass façade, ACP cladding, stone cladding or any other material. The company has dedicated production lines at Patalganga (Karjat) and Bangalore. The company has executed more than 100 projects with a total area of more than 1 million square meter. Some of the major projects include Reliance Petroleum Head Quarter at Navi Mumbai, Residence Antilia, One Indiabulls Centre at Mumbai, L&T Infotech building in Mumbai, sub-contracted façade work for Wankhede Stadium. The company has ISO 14001:2015 and ISO 9001:2015 certifications.

Financials (Standalone)

INR in Crore

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	310.15	348.95
EBITDA	28.40	34.62
PAT	13.98	13.99
Total Debt	85.02	96.67
Tangible Net Worth	160.66	173.32
EBIDTA Margin (%)	9.16	9.92
PAT Margin (%)	4.41	3.97
Overall Gearing ratio (x)	0.53	0.56

** Classification as per Infomerics' standards*

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	**Amount outstanding (INR Crore)**	**Rating**	**March 14, 2019**	**April 16, 2018**	**--**
Fund Based Facilities	Long Term	85.00	IVR BBB+/ Stable Outlook	IVR A-/ Stable Outlook	IVR A-/ Stable Outlook	--
Non-Fund Facilities	Short Term	165.00	IVR A2	IVR A2+	IVR A2+	--
	Total	**250.00**				

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. 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

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Fund Based facility	--	--	--	85.00	IVR BBB+/ Stable Outlook
2	Non-Fund Based facility	--	--	--	165.00	IVR A2
Total					**250.00**	