

Press Release

G.S. Express Private Limited

July 15, 2019

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	50.00 (including proposed limit of Rs.5.00 crores)	IVR BB / Stable Outlook (IVR Double B with Stable Outlook)	Assigned
Short Term Bank Facilities – Bank Guarantee	100.00 (including proposed limit of Rs.20.00 crore)	IVR A4 (IVR A Four)	Assigned
Total	150.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of G.S. Express Private Limited (GSEPL) derives comfort from its experienced promoters with long track record of operations and proven project execution capability, reputed clientele and Government thrust on road infrastructure. The ratings also factor in strong order book reflecting satisfactory medium-term revenue visibility. However, the rating strengths are partially offset by continuous decline in scale of operations over the past three fiscals ending in FY19, susceptibility of operating margin to volatile input prices, geographical concentration, highly fragmented & competitive nature of construction sector with significant price war, moderate debt protection metrics and its working capital-intensive nature of operation. Steady flow of orders & timely execution of the same, containment of operating costs in the wake of increasing competition, improvement in gearing ratios and efficient working capital management are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long track record of operations

GSEPL is headed by Mr. Sandeep Anand (son of Late Mr. G.S. Anand), Managing Director and Mrs. G.K. Anand (wife of Late Mr. G.S. Anand) having more than a decade of experience in the civil construction sector. They are well supported by a team of

qualified and experienced professionals who looks after the overall operations of the company.

Proven project execution capability

Over the past years, the company has successfully completed many projects across Uttar Pradesh and Chhattisgarh and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

Reputed clientele

GSEPL mainly bids for tenders floated by various government departments/entities and is mainly engaged in road and building construction for various government departments through direct contracts. The scope of work of projects undertaken by GSEPL mainly entails widening, strengthening and improvement of existing roads where necessary regulatory clearances are already in place.

Strong order book reflecting satisfactory medium-term revenue visibility

The company has an unexecuted strong order book position (Rs.481.81 crore as on May 15, 2019) with orders across 16 contracts which is about 4.85 times of its FY19 (provisional) construction revenue (i.e. Rs. 99.39 crore). The orders are expected to be completed within next one-three years, indicating a satisfactory near to medium term revenue visibility.

Government thrust on road infrastructure

India has the one of largest road network across the world, spanning over a total of 5.5 million km with gradual increase in road transportation over the years attributable to improvement in connectivity between cities, towns and villages in the country. The government, through a series of initiatives, is working on policies to attract significant investor interest. A total of 200,000 km national highways is expected to be completed by 2022. GSEPL being mainly in road construction likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

Key Rating Weaknesses

Declining trend in scale of operations

GSEPL is a small sized player in the construction industry, with total operating income (TOI) of Rs.108.21 crore in FY18 and a net worth base of Rs.30.52 crore as on March 31, 2018. Further, the TOI of the company witnessed a declining trend over the past three years (FY17-FY19) and the company has achieved a TOI of Rs.99.39 crore in FY19 (provisional). The

deterioration is mainly on account of decline in order flow due to state elections in Uttar Pradesh in Q4FY18. Thereafter, during FY19, change in government policies in UP and Chhattisgarh state elections in Q3FY19 also affected the order flow of the company. However, the company also started focussing more on high margin contracts (mainly laying of road) which resulted in improvement in absolute EBIDTA and EBIDTA margin during FY18 and FY19.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause (for raw materials) in most of the contracts protect the margin to an extent.

Geographical concentration risk

The present order book of the company is skewed towards road construction in Uttar Pradesh and Chhattisgarh from various government departments indicating a sectorial and geographical concentration risk. The geographical concentration risk can be corroborated from the fact that the revenue of the company was impacted during the state elections in UP and Chhattisgarh.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Leveraged capital structure with moderate debt protection metrics

The overall gearing though improved from 2.41x in FY18 to 1.84x in FY19 (provisional) remained high. Moreover, though the debt protection parameters improved in FY19

(provisional) marked by improvement in the interest coverage to 2.59x (1.69x in FY18) and Total debt to GCA at 5.09x (9.15x in FY18) respectively continues to remain moderate.

Working capital intensive nature of operations

The operating cycle of the company remained high and increased from 145 days in FY18 to 200 days in FY19 (provisional) due to elongated collection period and high inventory days. The high credit period availed from the creditors supported the working capital requirements to an extent. However, the liquidity position of the company remained stretched as evident from high utilisation of its working capital facilities during the last twelve months ended March 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

The current ratio of the company remained moderate at 1.18x as on March 31,2019 (Prov.) Further, the liquidity appeared to be stretched marked by its highly utilized bank limits indicating limited cushion.

About the Company

Incorporated in 2006, by Late Mr. G.S. Anand, Lucknow (Uttar Pradesh) based G.S. Express Private Limited (GSEPL) is engaged in contract-based construction and renovation of roads and highways, irrigation work, etc. for various Government bodies/departments. The company is mainly in road construction and predominantly caters to the government contracts through tender participation in Uttar Pradesh and Chhattisgarh.

Financials (Standalone):

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	108.21	99.39
EBITDA	19.14	25.44
PAT	1.31	7.25
Total Debt	73.63	69.72
Tangible Net worth	30.52	37.97

For the year ended* / As On	31-03-2018	31-03-2019
EBITDA Margin (%)	17.69	25.60
PAT Margin (%)	1.18	7.21
Overall Gearing Ratio (x)	2.41	1.84

*as per Infomerics classification

Status of non-cooperation with previous CRA:

India Ratings has moved the rating of GSEPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated May 16, 2018.

Brickwork Ratings has moved the rating of GSEPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 23, 2018.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	50.00 (including proposed limit of Rs.5.00 crores)	IVR BB / Stable Outlook	-	-	-
2.	Short Term Non-Fund Based Limits – Bank Guarantee	Short Term	100.00 (including proposed limit of Rs.20.00 crore)	IVR A4	-	-	-

*Letter of Credit of Rs.5.00 crores is sublimit of Bank Guarantee.

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.

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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 – Cash Credit	-	-	-	50.00 (including proposed limit of Rs.5.00 crores)	IVR BB / Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	100.00 (including proposed limit of Rs.20.00 crore)	IVR A4