Press Release

GEE Limited

November 12, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	90.00	IVR BBB/ Stable	-	Assigned	**Simple**
Short Term Bank Facilities	10.00	IVR A3+	-	Assigned	**Simple**
Total	**100.00 (Rs. One-hundred crore only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The ratings assigned to the bank facilities of GEE Limited (GEE) derives strength from experienced promoters with long track record of operations, diversified customer base, improvement in profitability in FY24 (refers to the period April 01, 2023 to March 31, 2024), and comfortable capital structure and coverage indicators. These strengths are partially offset by decline in scale of operation in FY24, volatile raw material prices and intensive competition in the industry.

The outlook of the company is expected to remain stable driven by sustained improvement in business and financial risk profile, coupled with experienced promoters and favourable demand outlook in the overall industry.

Key Rating Sensitivities:

Upward Factors

- Steady growth in scale of operations with improvement in profit margin on a sustained basis.
- Improvement in capital structure with improvement in the overall gearing and/or improvement in its debt protection metrics from current level.
- Improvement in liquidity with improvement in operating cycle.

Downward Factors

- Moderation in scale of operation and/or moderation in profitability affecting the cash accrual.
- Deterioration in the overall gearing and/or moderation in its debt protection metrics.
- Elongation in operating cycle with moderation in liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record of operations**

The promoters have been engaged in the welding materials industry for over four decades, resulting in a deep understanding of its dynamics. This extensive experience has enabled them to build a robust customer base across various industries and establish an extensive distribution network.

- **Diversified customer base**

GEE maintains a diverse customer base, with its top five clients accounting for approximately 20-25% of total sales, indicating a low risk of customer concentration. GEE has established strong customer relationships, which helps in securing repeat orders. Additionally, it has also acquired many new customers, ensuring that fluctuations in orders have minimal impact on earnings.

- **Improvement in profitability in FY24**

In FY23 (Refers to the period April 01, 2022 to March 31,2023), albeit increase in revenue, GEE experienced a ~17% decline in absolute EBITDA, primarily due to higher raw material costs and increased sales promotion expenses. However, in FY24, a recovery occurred as raw material prices moderated from H2FY24, resulting in a ~26% rise in EBITDA, which reached Rs. 29.52 crore. The company's absolute PAT fell by ~44% in FY23, decreasing from Rs. 15.10 crore in FY22 (refers to the period April 01, 2021 to March 31,2022) to Rs. 8.51 crore in FY23, impacted by lower EBITDA, rising finance costs from rising interest rates, and higher tax expenses. With the stabilization of raw material prices and interest rates in FY24, PAT improved by ~51% and stood at Rs. 12.86 crore.

- **Comfortable capital structure and comfortable coverage indicators**

The company's capital structure improved as total debt decreased from Rs. 87.61 crore on March 31, 2023, to Rs. 81.61 crore on March 31, 2024, due to the repayment of term loans. Adjusted tangible net worth (After adjusting of long pending dues from group companies) increased to Rs. 121.74 crore as of March 31, 2024, from Rs. 118.36 crore in FY23, reflecting accretion of reserves due to profits earned. This led to an improvement in the overall gearing ratio, which improved from 0.74 times in FY23 to 0.67 times in FY24, and also TOL/TNW which improved from 1.07 times to 0.98 times during the same period. The interest coverage ratio rose to a comfortable levels at 3.61x in FY24, from 2.61x in FY23, although it remained below 4.94x recorded in FY22 due to rising interest costs. Other debt coverage metrics also showed improvement, with Total Debt/EBITDA decreasing from 3.73 times in FY23 to 2.77 times in FY24. DSCR also improved significantly to 2.72 times in FY24, compared to 2.07 times in FY23, driven by strong cash accrual generation relative to debt repayment obligations.

Key Rating Weaknesses

- **Decline is scale of operations in FY24**

GEE witnessed a significant improvement ~22% in its TOI during FY23, increasing from Rs. 323.41 crore in FY22 to Rs. 395.66 crore, driven by a favourable demand outlook for its products. However, in FY24, GEE's TOI declined marginally by ~7%, dropping to Rs. 369.14 crore from Rs. 395.66 crore in FY23. This decline was mainly due to a reduction in product prices, including welding electrodes and saw flux due to competitive pressures, decline in exports, and reduced orders stemming from tightening of credit terms by the company.

- **Volatile raw material prices**

The price of steel and key chemicals is highly volatile. and therefore, profitability is vulnerable to fluctuations in raw material prices. Furthermore, given the fragmented nature of the industry, GEE has moderate bargaining power, which limits its ability to fully pass on cost increases to customers or retain the benefits when prices decline.

- **Intense competition in the industry**

The welding electrodes industry is highly competitive, with the presence of large unorganized players. The organized sector includes well-established companies with advanced technology and a broad product range, while the unorganized sector focuses on low-cost production, offering competitive prices.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity –Adequate

The liquidity position of the company is adequate marked by generation of cash accruals sufficient to meet debt obligations from FY25-FY27. Furthermore, current ratio stood above unity at 1.38x in FY24. The bank limit utilization remains at around ~75% over the 12 months ended September-24 which indicates sufficient liquidity buffer.

About the Company

GEE Limited was founded in 1960 in Thane, Maharashtra to undertake manufacturing of welding electrodes and equipment in technical collaboration with Griesheim GmbH of Germany. In 1996, the company was fully acquired by the current promoters and was renamed GEE Limited. Post takeover, GEE Limited diversified into the manufacture of a variety of welding electrodes and wires, with a plant in Kalyan, Maharashtra, in 2008, and another in Howrah, West Bengal, in 2009. The company has a pan-India presence through its network of dealers and distributors, and also exports to various countries. It is currently headed by Mr. S L Agarwal and his brother, Mr. S M Agarwal, and is assisted by qualified and experienced management and staff in day-to-day operations. The company is currently listed on the Bombay Stock Exchange.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	395.66	369.14
EBITDA	23.36	29.52
PAT	8.51	12.86
Total Debt	87.16	81.61
Tangible Net Worth (Adjusted)	118.36	121.74
EBITDA Margin (%)	5.90	8.00
PAT Margin (%)	2.14	3.48
Overall Gearing Ratio (Adjusted) (x)	0.74	0.67

For the year ended/ As on*	31-03-2023	31-03-2024
Interest Coverage (x)	2.61	3.61

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned 2022-23	Date(s) & Rating(s) assigned in 2021-22
					-	-	-
1.	Cash Credit	Long Term	90.00	IVR BBB/ Stable	-	-	-
2.	Letter of Credit	Short Term	5.00	IVR A3+	-	-	-
3.	Bank Guarantee	Short Term	5.00	IVR A3+	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit 1	-	-	-	-	25.00	IVR BBB/ Stable
Cash Credit 2	-	-	-	-	25.00	IVR BBB/ Stable
Cash Credit 3	-	-	-	-	40.00	IVR BBB/ Stable
Letter of Credit	-	-	-	-	5.00	IVR A3+
Bank Guarantee	-	-	-	-	5.00	IVR A3+

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-GEE-nov24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Name of the Security		Detailed Explanation
	Financial Covenant	

	i.	
	ii.	
	Non-financial Covenant	
	i.	
	ii.	

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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.