



SMERA RATINGS LIMITED

GM Modular Private Limited (GMMPL)

Rating
Rationale**September 21, 2015**

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	11.50	SMERA BBB-/Stable (Assigned)
Term Loan	3.50	SMERA BBB-/Stable (Assigned)

SMERA has assigned a long-term rating of **'SMERA BBB-' (read as SMERA triple B minus)** to the Rs.15.00 crore bank facilities of GM Modular Private Limited (GMMPL). The outlook is **'Stable'**.

The rating derives comfort from the company's established market position with pan India presence, diversified product portfolio and experienced management. The rating also derives comfort from the robust revenue growth coupled with stable operating profit margin and healthy financial risk profile. However, the rating is constrained by the company's working capital intensive operations, susceptibility of the profit margins to fluctuation in raw material prices and intense market competition from other established brands present in the electrical industry.

GMMPL, a Mumbai-based company is engaged in the manufacturing of electrical products and accessories. The company manufactures switches, sockets, adaptors, spike guards, i-Dock, i-Touch, night lamps, mosquito repellents, etc. GMMPL operates through its network of around 25 exclusive distributors catering across the country. The company has strong presence in the southern region contributing around 50% of the total sales in FY2014-15. GMMPL has experienced management team. Mr. Jayanth Jain and Mr. Ramesh Jain, directors of the company have around a decade of experience in the electrical industry.

GMMPL's revenues have grown at a strong compound annual growth rate (CAGR) of 98 per cent over the last three years ended FY2014-15. GMMPL reported an operating income of Rs.107.46 crore in FY2015, as against an operating income of Rs.71.30 crore in the previous year. The operating profit margin has remained stable at ~7-8 per cent over the last three years.

GMMPL's healthy financial risk is marked by networth of Rs.27.31 crore (provisional) as on March 31, 2015, as compared with Rs.20.71 crore a year earlier. The company has subordinated interest-bearing unsecured loans of Rs.13.99 crore (as on March 31, 2015) from promoters and related parties. SMERA has treated such unsecured loans as quasi-equity. GMMPL's leverage (debt-to-equity ratio) stood at 0.54 times as on March 31, 2015. The company has a comfortable interest coverage ratio of 3.19 times (provisional) and healthy return on capital employed of 20.88 per cent (provisional) in FY2014-15.

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GMMPL's operations are working-capital-intensive in nature, as reflected in its gross current assets of around 252 days as on March 31, 2015 because of the company's high receivable days of 127 days and inventory levels of around 90-100 days. As a result, the company's average bank limit utilization has been moderately high, at around ~84 per cent for the seven months ended July 2015. However GMMPL's working capital cycle is comfortable mainly on account of creditor days of 160-170 days. SMERA expects the working capital cycle to be maintained around 60-70 days over the medium term. With fund support from promoters, the company's total outside liabilities to tangible net worth (TOL/TNW) stood at 2.12 times (provisional) as on March 31, 2015.

GMMPL's profit margins are exposed to fluctuation in raw material prices. The company is also exposed to intense competition from other well established brands present in the electrical industry.

Outlook: Stable

SMERA believes GMMPL will continue to benefit over the medium term from its established market position and experienced management. The outlook may be revised to 'Positive' in case the company registers sustainable revenue growth while maintaining its profit margins or in case of improvement in the company's working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile and liquidity position. The rating may undergo a change in case of higher than anticipated debt-funded working capital debt.

About the Company

Incorporated in 1999, GMMPL commenced operations from 2002. GMMPL, a Mumbai-based company is engaged in the manufacturing of variety of electrical products including switches, sockets, adaptors, spike guards, i-Dock, i-Touch, night lamps, mosquito repellents, etc. The company is managed by Mr. Jayanth Jain and Mr. Ramesh Jain. GMMPL has ~25 exclusive distributors spread across the country. The company has six factories in Vasai, Palghar.

For FY2014-15, GMMPL reported profit after tax (PAT) of Rs.3.17 crore (provisional) on operating income of Rs.107.46 crore (provisional), as compared with PAT of Rs.2.26 crore on operating income of Rs.71.30 crore in the previous year. The company's net worth stood at Rs.27.31 crore (provisional) as on March 31, 2015, as compared with Rs.20.71 crore a year earlier.

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Rationale

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