

Press Release

GM Modular Private Limited

04 May, 2018



Rating Upgraded, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 160.00 Crore (Enhanced from Rs. 15.00 Crore)
Long Term Rating	SMERA BBB+/ Stable (Upgraded from SMERA BBB/Stable)
Short Term Rating	SMERA A2 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded long term rating on the Rs.35.00 crore bank facilities of GM Modular Private Limited (GMML) to '**SMERA BBB+** (read as SMERA triple B plus) from '**SMERA BBB** (read as SMERA triple B).

Further, SMERA has assigned long term rating of '**SMERA BBB+** (read as SMERA triple B plus) and short term rating of '**SMERA A2** (read as SMERA A two) on the Rs.125.00 crore bank facilities of GM Modular Private Limited (GMML). SMERA has withdrawn the long term rating of '**SMERA BBB** (read as SMERA triple B) on the Rs.9.00 crore bank facilities of GM Modular Private Limited (GMML).The outlook is '**Stable**'.

The upgrade is in view of the significant growth in revenue supported by healthy profitability margins and net cash accruals. Further, the rating also draws comfort from favourable demand factors such as growth in the real estate sector, higher consumer demand for safe and aesthetic products.

SMERA believes that GMML will sustain its existing business profile on the back of diversified product portfolio with an addition of LED lights in the business profile, favorable demand conditions and established relationships with customers which will help the company to maintain its revenue stream over the near to medium term.

G.M. Modular Private Limited (GMMPL) was incorporated in 1999 by Mr. Jayanth Jain and Mr. Ramesh Jain in June, 1999. The day to day operations are managed by Mr. Jayanth Jain (Director) and Mr. Abhinav Jain (CFO). GMML owns 4 factories and 2 warehouses in Vasai, (Dist. Palghar) and is engaged in manufacturing of electric products such as switches, sockets, cover plates, plug tops and travel adaptors. The company also trades in LED lights. GMMPL has an established brand - 'GM', apart from seven to eight sub brands including G-Magic and Four-Five.

Key rating drivers

Strengths

Established track record of operations and experienced management

Mr. Jayantilal Jain and Mr. Ramesh Jain have an experience of around 25 years and 27 years respectively in the electrical switches and accessories industry. GMML's strong position stems from the presence of its established brands in both domestic and export markets.

SMERA believes that the company will sustain the existing business profile over the medium term on the back of extensive experience of the management, long track record of operations and long term relations with its customers and suppliers.

Favorable demand factors

The key demand drivers for this company are robust growth in the real estate sector, increased consumer spending and an increasing concern towards safety. With the boost in the real estate sector on account of Pradhan Mantri Awas Yojna and Smart City Mission, there is a high consumer demand generated for safe and aesthetic products.

SMERA believes that continuous improvement in these demand factors will help the company in maintaining stable revenue growth in the near to medium term.

Healthy business risk profile

The business risk profile is marked by the diverse product profile, Pan-India presence and robust growth in revenues.

The diverse product profile include switches, sockets, plug tops, travel adaptors, spike guards, night lamps & repellents, USB universal Charger, FM Radio, Digital Media Player, Security products, among others. The company sells these products through its 25 exclusive distributors spread all over India with more focus on diversifying in Tier II and Tier III cities of India.

The company has seen a significant growth in revenues over the past 4 years. The revenues of the company grew at a CAGR of ~63 percent from the period FY2014-FY2017. The company booked revenue of Rs.508.55 crore in FY2017 as against Rs.107.40 crore in FY2016. The increase in revenues is on account of revision in prices of the products and addition of LED lights in the existing business profile which contributed to ~15-20 percent of the total revenue. Further, the revenue stood at Rs.775 crore for FY2018 (Provisional).

Healthy financial risk profile

The rating also derives comfort from the healthy financial risk profile marked by improvement in net worth and comfortable debt protection metrics. The financial risk profile of the company has been healthy marked by tangible net worth of Rs.53.23 crore as on 31 March, 2017 as against Rs.29.41 crore as on 31 March, 2016 on account of retention of profits. The gearing stood moderate at 1.44 times as on 31 March, 2017 as against 1.65 times as on 31 March, 2016.

The total debt of Rs.72.12 crore outstanding as on 31 March, 2017 comprises unsecured loans from Directors of Rs.21.27 crore, long term secured loans from bank of Rs.11.53 crore and working capital borrowings of Rs.39.32 crore from the bank. The Interest Coverage Ratio (ICR) improved to 4.45 times in FY2017 from 2.66 times in FY2016. The improvement in debt protection metrics had been primarily on account of increased scale of operations, EBITDA and net profitability. The net cash accruals increased to Rs.19.56 crore in FY2017 from Rs.5.99 crore in FY2016. The NCA/TD ratio stood at 0.26 times in FY2017 as against 0.12 times in FY2016.

SMERA believes that GMML will continue to maintain a healthy financial risk profile on the back of healthy net cash accruals generation over the near to medium term.

Weaknesses

Stiff competition from other brands in the industry

GMML has a strong presence in the southern states of the country but it still faces intense competition in the electrical industry from other established brands such as Phillips, Anchor, Havells, and MK.

Working capital intensive operations

The operations are working-capital-intensive in nature as reflected in Gross Current Assets (GCA) of around 188 days as on 31 March, 2017 as against 269 days as on 31 March, 2016. The GCA days are high because of high receivable days of 117 as on 31 March, 2017 as compared to 126 as on 31 March, 2016. Inventory holding period stood at 48 days as on 31 March, 2017 as against 120 days as on 31 March, 2016. The company gets extended credit period from its suppliers of around 120 to 170 days which moderates the working capital requirement. The average bank limit utilization stood at around 82 percent for the last six months ended 31 March, 2018.

SMERA believes the ability of the company to manage sufficient funds to support the increase in scale of operations over the near to medium term will be critical.

Susceptible to fluctuation in raw material prices and forex

GMML uses materials such as plastic, wire, lead and glass as raw material for the manufacturing and export of its products. The profitability margins of the company are subjected to fluctuation in prices of raw material. Any adverse changes in the raw material prices will directly impact the profitability margins. Further, the company also imports the LED lights from China and Hong Kong. Any adverse fluctuation in the foreign exchange rates will impact the profitability margins.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of GMML to arrive at the rating.

Outlook: Stable

SMERA believes that GMML will continue to maintain a 'Stable' outlook over the medium term from its established market position and experienced management. The outlook may be revised to 'Positive' in case of sustainable increase in profit margins or in case of improvement in the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and liquidity position.

About the Rated Entity -Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	508.55	169.18	107.40
EBITDA	Rs. Cr.	40.20	14.54	7.42
PAT	Rs. Cr.	18.40	4.98	2.93
EBITDA Margin (%)	(%)	7.91	8.59	6.91
PAT Margin (%)	(%)	3.62	2.94	2.73
ROCE (%)	(%)	37.71	22.81	20.60
Total Debt/Tangible Net Worth	Times	1.25	1.65	0.74
PBDIT/Interest	Times	4.45	2.66	3.15
Total Debt/PBDIT	Times	1.79	3.30	2.32
Gross Current Assets (Days)	Days	188	269	252

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
09-Feb-2017	Cash Credit*^	Long term	12.42	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
	Term loan	Long term	2.58	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
21-Sep-2015	Cash Credit	Long term	11.50	SMERA BBB-/Stable (Assigned)
	Term loan	Long term	3.50	SMERA BBB-/Stable (Assigned)

* Overdraft and Cash credit of Rs. 18.00 crore is the sub limit of Cash Credit.

^Rs. 10.00 crore of Letter of credit (LC) and Buyers credit (BCU) is the sub limit of Cash Credit.

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00*^ (Enhanced from Rs. 12.42 Cr)	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Over draft	Not Applicable	Not Applicable	Not Applicable	25.00#	SMERA BBB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00@	SMERA BBB+/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.90	SMERA BBB+/Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	49.10	SMERA BBB+/Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA A2 (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.42	SMERA BBB/Stable (Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.58	SMERA BBB/Stable (Withdrawn)

*^Include sublimit as:

- *OD/CC of Rs.25.20 crore, working capital loan of Rs.25.20 crore*
- *Letter of Credit of Rs.15.00 crore and Buyer's Credit of Rs.15.00 crores*

#Includes sublimit of WCDL, LC and BC of Rs.20.00 crore, Rs.10.00 crore and Rs.10.00 crore respectively

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

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