

Press Release

P M Electro Auto Private Limited

July 05, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 111.86 Cr. (Enhanced from Rs.86.86 cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A3 (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 98.50 crore (enhanced from Rs.86.86 cr.) bank facilities of P M Electro Auto Private Limited (PMEA). Further, Acuité has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the proposed facility of Rs.13.36 crore. The outlook is '**Stable**'.

PMEA, a Mumbai-based private limited company was incorporated in 1991 by Mr. Sameer Sanghavi, Mr. Kapil Sanghavi Sanghavi, Mr. Vishal Sanghavi and Mr. Sandeep Sanghavi. The company is engaged in the manufacturing of sheet metal pressed components and assemblies for automobile, steel furniture, lighting systems and solar for industrial applications among others. The company is also a leading manufacturer and supplier of automobile spare parts such as bumper and metallic coated sheet to name a few. PMEA has ISO: 9001-2008, ISO: 14001-2004, TS-16949 certification and currently operates at two manufacturing locations. The manufacturing facilities of the company are located at Nashik and Palghar.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PMEA to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record and experienced management**

PMEA was founded by promoters Shri Navinchandra Sanghavi and Shri Pravinchandra Sanghavi having presence since 1991 and has established track record of operations of over two decades in the said line of business. The Second Generation Promoters, Mr. Sameer Sanghavi, Mr. Kapil Sanghavi, Mr. Vishal Sanghavi and Mr. Sandeep Sanghavi among others have more than two decades of experience. The extensive experience of the Directors has helped the promoters to establish longstanding relationship with reputed clients and suppliers. The company also gets support from second line of management.

- **Established relations with reputed clientele and diversified product portfolio**

PMEA has well established and longstanding relationship with reputed clients such as Godrej, Mahindra Auto, Siemens, Larsen & Toubro and Renew Solar to name a few, which limits counter-party risk. The company has a diversified business profile and manufactures more than 700 products including furniture, lighting led and street lights, and auto spare components. The company has added new products in solar. The company has also established its own brand 'PMEA' in the current year.

- **Improving revenues and healthy order book**

The company's revenue has improved by 11.62 percent to Rs. 339.48 crore in FY2019 (Provisional) which stood at Rs. 304.13 crore in FY2018. The revenue has improved due to increased capacity and adding of new products in solar as well as existing portfolio. The company also has healthy order book of Rs. 73.30 crore as on June 2019 providing revenue visibility over the medium term. PMEA has also ventured into export business of Solar Mounting Structures and has achieved a turnover of Rs.14.00 crore for FY2019 (Provisional). Acuité expects the revenue and margins to further improve on account of increase in capacity utilisation levels, established brand presence and adding of new customer.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of PMEA stood moderate marked by net worth of Rs. 51.68 crore as on 31 March, 2019 (provisional) as against Rs.42.03 crore as on 31 March, 2018. The net worth includes unsecured loans of Rs.14.08 crore which are subordinated with bank facilities. The gearing ratio stood moderate at 1.46 times as on 31 March, 2019 (Provisional) as against 1.29 times as on 31 March, 2018. The interest coverage ratio stood at 2.34 times as on 31 March, 2019 (Provisional) as against 3.01 times as on 31 March, 2018. TOL/TNW stood high at 3.01 times in FY2019 (Provisional) as against 3.16 times in FY2018. Debt Service Coverage Ratio (DSCR) stood low at 1.49 times in FY2019 (Provisional) as against 1.69 times in FY2018 due to moderate capital expenditure undertaken resulting in higher interest outgo.

- **Moderate working capital cycle**

The working capital cycle of the company stood moderate marked by gross current assets (GCA) of 154 days in FY2019 (Provisional) as against 148 days in FY2018. The GCA days is marked by moderate increase in inventory days of 55 in FY2019 (Provisional) as against 45 days in FY2018. The receivables stood at 75 days in FY2019 (Provisional) as against 96 days in FY2018. Thus, resulting in moderate reliance on working capital limit utilisation which stood at ~ 72.75 percent for last six months ending April 2019.

- **Vulnerability of margins to fluctuations in raw material prices**

The operating margins and profitability are susceptible to volatility in raw material prices of steel. Any adverse increase in prices will have direct impact on margins of the company. However, pricing agreements with customers are reworked every quarter and the company is able to pass on the impact of price fluctuations to its customers. Thus, reducing the effect of raw material price fluctuations to a large extent.

Liquidity Position:

Liquidity profile is adequate as reflected by moderate bank line utilisation. PMEA has reported cash accruals of Rs. 12.31 crore as against repayment obligations of Rs. 4.50-5.00 crore for FY2019 (Provisional). It is expected to generate cash accruals in the range of Rs.12.50 -13.00 crore over the medium term which gives adequate cushion for the incremental working capital requirements and the liquidity. The company has cash and bank balances of Rs. 6.08 crore as on March 31, 2019 (Provisional). The working capital limit utilisation stood at ~ 72.75 percent for last six months ending April 2019. The current ratio stood low at 1.11 times for FY2019 (provisional). Acuité believes that the liquidity profile will continue to remain adequate as supported by moderate accruals.

Outlook: Stable

Acuité believes that PMEA will maintain a 'Stable' outlook over the medium term owing to its experienced management and established track record. The outlook may be revised to 'Positive' in case of substantial increase in scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its financial risk profile on account of larger-than-expected working capital requirements or detrition in debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	339.48	304.13	266.19
EBITDA	Rs. Cr.	25.66	21.30	17.25
PAT	Rs. Cr.	4.24	5.54	4.60
EBITDA Margin (%)	(%)	7.56	7.00	6.48
PAT Margin (%)	(%)	1.25	1.82	1.73
ROCE (%)	(%)	16.50	18.77	18.78
Total Debt/Tangible Net Worth	Times	1.46	1.29	1.03
PBDIT/Interest	Times	2.34	3.01	3.05
Total Debt/PBDIT	Times	2.85	2.46	2.11
Gross Current Assets (Days)	Days	154	148	142

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Apr-2018	Cash Credit	Long Term	27.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	9.36	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	42.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.00* (Enhanced from 27.00)	ACUITE BBB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	12.70 (Enhanced from 9.36)	ACUITE BBB-/Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	41.80 (Reduced from 42.50)	ACUITE A3 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	10.00 (Increased from 8.00)	ACUITE A3 (Reaffirmed)

Proposed Facility	Not Applicable	Not Applicable	Not Applicable	6.86	ACUITE BBB-/Stable (Assigned)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE A3 (Assigned)

*Sublimit packing credit of Rs. 7.00 crore

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About Acuité Ratings & Research:

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