Press Release

P M Electro Auto Private Limited

September 17, 2020

Rating Upgraded

Total Bank Facilities Rated*	Rs.111.86 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB- / Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' **(read as ACUITE triple B)** from '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and the short-term rating to '**ACUITE A3+**' **(read as ACUITE A three plus)** from '**ACUITE A3**' **(read as ACUITE A three)** on the Rs.111.86 Cr bank facilities of P M Electro Auto Private Limited (PMEAPL). The outlook is **'Stable'**.

The upgrade revision in the rating is on account of a significant improvement in overall business risk profile marked by growth in operating income along with operating and net profitability margins. This growth is driven by venturing into solar mounting business. Further, the upgrade also draws comfort from a healthy financial risk profile.

About the Company

Mumbai Based, PMEAPL was incorporated in 1991 by Mr. Sameer Sanghavi, Mr. Kapil Sanghavi Sanghvi, Mr. Vishal Sanghavi and Mr. Sandeep Sanghavi. The company is engaged in the manufacturing of steel based products. These products are steel furniture, lighting systems, solar mountings and assemblies for automobile, among others. The company has 8 manufacturing facilities, located at Nashik, Palghar, Thane and Pune.

Analytical Approach

To arrive at the rating, Acuité has considered the standalone business and financial risk profile of PMEAPL.

Key Rating Drivers

Strengths

- **Experienced promoters, diversified product portfolio along with improving business risk profile**
  PMEAPL was established in 1991 by Mr. Sameer Sanghavi, Mr. Kapil Sanghavi, Mr. Vishal Sanghavi and Mr. Sandeep Sanghavi. The promoters possess experience of almost three decades in the industry. The extensive experience of the promoters has helped PMEAPL to establish diversify product portfolio, i.e. solar mounting (49% of the total revenue), steel furniture (18% of the total revenue), lightings (13% of the total revenue) and auto assemblies (14% of the total revenue). The company caters to reputed customers for all the verticals like NEXTracker, Godrej and Boyce Mfg. Co. Limited, Mahindra & Mahindra Limited among others.
  The operating income of the company stands at Rs.403.43 crore in FY2020 (Provisional) as against Rs.352.01 crore in FY2019 and Rs.304.13 crore in FY2018. The company is growing at compounded annual growth rate (CAGR) of 15% percent since FY2018. The operating and PAT margins of the company have also improved to 11.48 percent and 4.36 percent in FY2020 (Provisional) as compared to 7.29 percent and 1.23 percent in FY2019. This improvement is due to the diversification into the solar mounting business.
  Acuité believes that the PMEAPL promoter's experience and diversified product portfolio to

support its business risk profile over near to medium term.

- **Healthy financial risk profile**

The financial risk profile of PMEAPL is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth of PMEAPL is healthy at around Rs.62.46 crore as on 31 March, 2020 (Provisional) as against Rs.44.88 crore as on 31 March, 2019. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy accretion to reserves and quasi equity of Rs.10.00 crore as on 31 March, 2020.

PMEAPL has followed conservative financial policy in the past, the same is reflected through its peak gearing in the past around 1.59 times as on 31 March, 2019, and improved significantly to 0.71 times as on March 31, 2020 (Provisional). The debt of Rs.44.35 crore as on 31 March, 2020 (Provisional), consists of working capital borrowings of Rs.25.31 crore and term loans of Rs.17.90 crore. The company does not have any plans for debt-funded capex.

The debt protection metrics have also seen significant improvement marked by Interest Coverage Ratio (ICR) of 3.86 times in FY2020 (Provisional) as against 2.35 times in FY2019. Debt Service Coverage Ratio (DSCR) improved to 3.23 times for FY2020 (Provisional) as against 2.14 times for FY2019. Debt to EBITDA also improved to 0.95 times as on 31 March, 2020 (Provisional) as compared to 2.69 times as on 31 March, 2019. Net cash Accruals/Total Debt stands at 0.61 times in FY2020 (Provisional) as against 0.18 times in FY2019. Acuité believes that the company to maintain its financial risk profile over medium-term in the absence of significant debt-funded capital expenditure plan.

Weaknesses

- **Moderate working capital cycle**

PMEAPL has moderate working capital requirements marked by Gross Current Assets (GCA) days of 123 in FY2020 (Provisional) as against 139 days in FY2019. This is majorly due to the inventory holding period and debtors days of 59 and 42 for FY2020 (Provisional) as against 54 and 65 days for FY2019. The company mainly keeps the inventory of raw material. The average utilization of working capital limits is ~72% for the past eleven months through June, 2020. The company gets credit period of 96 days in FY2020 (Provisional), which moderates the requirement of working capital. Acuité believes that PMEAPL's working capital operations will be mitigated by the availability of adequate liquidity over the medium term.

- **Susceptibility of profitability to volatility in raw material prices**

The major raw material for manufacturing is steel and the prices for the same are highly volatile in nature. Further, the company meets the requirement domestically. Any adverse change in the prices of the raw material may impact the profitability margins of the company.

Liquidity position: Adequate

PMEAPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.11-27 crore during the three years through 2018-2020, while its maturing debt obligations were in the range of Rs.3.58 crore over the same period. The cash accruals of the company are estimated to remain around Rs.19-25 crore during 2019-20, while its repayment obligations are estimated to be around Rs.3.58 crore for FY2021. The company's operations are working capital intensive as marked by the Gross Current Asset (GCA) days of 123 in FY2020 (Provisional). However, the reliance on working capital borrowings was moderate, around 72.87% for the past year months ended in June, 2020. The company maintains unencumbered cash and bank balances of Rs.0.78 crore as on March 31, 2020 (Provisional). The current ratio of the company stood healthy at 1.29 times as on March 31, 2020 (Provisional) as compared to 1.14 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Rating Sensitivity

- Elongation in the working capital cycle
- Improvement in operating performance while maintaining profitability margins

Material covenants
None

Outlook: Stable
Acuité believes that PMEAPL will maintain a 'Stable' outlook over the medium term on account of promoter's experience in the industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while sustaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or deterioration of financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	403.43	352.01
PAT	Rs. Cr.	17.58	4.34
PAT Margin	(%)	4.36	1.23
Total Debt/Tangible Net Worth	Times	0.63	1.59
PBDIT/Interest	Times	3.86	2.35

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-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Jul-2019	Cash Credit	Long Term	34.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	12.70	ACUITE BBB-/ Stable (Reaffirmed)
	Letter of Credit	Short Term	41.80	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	6.86	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Facility	Short Term	6.50	ACUITE A3 (Assigned)
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	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
Term Loan	Not Available	Not Applicable	Not Available	12.70	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	41.80	ACUITE A3+ (Upgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Upgraded from ACUITE A3)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.86	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE A3+ (Upgraded from ACUITE A3)

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About Acuité Ratings & Research:
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