

Press Release

P M Electro Auto Private Limited

December 10, 2021



Rating Reaffirmed

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	81.80	81.80		ACUITE A3+ Reaffirmed
Bank Loan Ratings	30.06	30.06	ACUITE BBB Stable Reaffirmed	
Total	-	111.86	-	-

Rating Rationale

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

Rationale for reaffirmation of ratings

The rating continues to derive comfort from the comfortable business risk profile supported by a diversified product portfolio & improving profitability indicators, a healthy financial risk profile, and adequate liquidity position. The rating nonetheless remains constrained on account of deterioration in operating income due to the impact of Covid-19, intensive working capital requirements and significant susceptibility to the volatility in its raw material prices, which is steel.

About the Company

Mumbai Based, P M Electro Auto Private Limited (PMEAPL) was incorporated in 1991 by Mr. Sameer Sanghavi, Mr. Kapil Sanghavi, 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, telecommunication equipments, and assemblies for automobiles, among others. The company has 10 manufacturing facilities, located at Nashik, Palghar, Thane, and Pune.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced promoters, diversified product portfolio along with improving profitability indicators

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 a diversified product portfolio, i.e. solar mounting, steel furniture, lightings, telecommunication equipment, and auto assemblies.

The company caters to reputed customers for all the verticals like NEXTracker, Godrej, and Boyce Mfg. Co. Limited, Mahindra & Mahindra Limited among others. The profitability indicators of the company have improved on a Y-O-Y basis to 12.33 percent in FY2021

(Provisional) as compared to 11.08 percent in FY2020.

Acuité believes that the PMEAPL's promoter experience and diversified product portfolio support its business risk profile over the near to medium term.

Healthy financial risk profile

PMEAPL has a healthy financial risk profile marked by healthy net worth, low gearing, and healthy debt protection metrics. The tangible net worth stood of PMEA stood healthy at around Rs.69.74 crore as on 31 March, 2021 (Provisional) as against Rs.52.04 crore as on 31 March, 2020. The net worth levels have seen significant improvement over the last three years through FY2021. PMEAPL follows conservative financial policy as reflected through its Gearing (Debt to Equity) of 1.11 times as on March 31, 2021 (Provisional), as against 1.02 times as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.41 times as on March 31, 2021 (Provisional) as against 2.86 times as on March 31, 2020. The Debt profile consists of long-term loans, unsecured loans, and working capital facilities from multiple Banks and NBFCs. The company does not have any plans for debt-funded capex.

The debt protection indicators have also witnessed significant improvement marked by Interest Coverage Ratio (ICR) of 4.10 times in FY2021 (Provisional) as against 3.78 times in FY2020 while the Debt Service Coverage Ratio (DSCR) stood at 3.56 times for FY2021 (Provisional) as against 3.20 times for FY2020. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.36 times as on March 31, 2021 (Provisional) as against 0.50 times as on March 31, 2020.

Acuité believes that the company to maintain its financial risk profile over the medium-term in the absence of a significant, capital structure altering debt-funded capital expenditure plan.

Weaknesses

Intensive working capital requirements

PMEAPL has an intensive working capital requirement marked by its Gross Current Assets (GCA) of 163 days in FY2021 (Provisional) as against 122 days in FY2020. This is majorly due to increasing in its inventory holding period and debtors collection period to 64 days and 52 days for FY2021 (Provisional) as against 59 days and 42 days for FY2020 respectively. The company mainly keeps the inventory in the form of raw materials. Further, PMEA gets a credit period of 106 days in FY2021 (Provisional). The average utilization of working capital limits stood at ~60% for the 6-month period through October 2021.

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 affect the profitability margins of the company.

Liquidity position: Adequate

PMEAPL has adequate liquidity marked by healthy Net Cash Accruals (NCA) to its maturing debt obligations. PMEA generated Net Cash Accruals (NCA) of Rs.28.20 Cr. in FY2021 (Provisional), while its maturing debt obligations stood at ~Rs.5.00 crore over the same period. The net cash accruals of the company are estimated to remain around ~Rs50.00 Cr. during the 2022-24 period, while its repayment obligations are estimated to be around Rs.8.00 Cr. during the same period.

The company's operations are working capital intensive as marked by the Gross Current Asset (GCA) days of 163 in FY2021 (Provisional). However, the reliance on working capital borrowings was moderate, around 60% for the past 6 months ended in October 2021. The company maintains unencumbered cash and bank balances of Rs.5.97 crore as on March 31, 2021 (Provisional). The current ratio of the company stood healthy at 1.19 times as on March 31, 2021 (Provisional).

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.

Material covenants

None

Outlook: Stable

Acuité believes that PMEAPL will maintain a 'Stable' outlook over the medium term on account of the 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 the financial risk profile.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	354.62	403.33
PAT	Rs. Cr.	17.47	17.08
PAT Margin	(%)	4.93	4.23
Total Debt/Tangible Net Worth	Times	1.11	1.02
PBDIT/Interest	Times	4.10	3.78

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Sep 2020	Proposed Bank Facility	Short Term	6.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	34.00	ACUITE BBB (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	12.70	ACUITE BBB (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	6.86	ACUITE BBB (Upgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	41.80	ACUITE A3+ (Upgraded from ACUITE A3)

	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Upgraded from ACUITE A3)
05 Jul 2019	Term Loan	Long Term	12.70	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Reaffirmed)
		Short Term	6.50	ACUITE A3 (Assigned)
		Long Term	6.86	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	41.80	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	34.00	ACUITE BBB- Stable (Reaffirmed)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	6.00	ACUITE A3+ Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	75.80	75.80	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	21.96	21.96	ACUITE BBB Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	07-01-2019	Not available	30-06-2024	8.10	8.10	ACUITE BBB Stable Reaffirmed

*LC facility consists of Sub-Limit of CC limit of Rs.59.80 Cr. and PC/PCFC/FBP/UFBP/PSDL limit of Rs.7.00 Cr.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Aditya Sahu Analyst-Rating Operations Tel: 022-49294065 aditya.sahu@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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