

Press Release

Amba Industries

May 28, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 12.50 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BB**' (**read as SMERA double B**) and the short term rating of '**SMERA A4+**' (**read as A four plus**) on the Rs.12.50 crore bank facilities of Amba Industries (AI). The outlook is 'Stable'

Established in 1985, Amba Industries (Amba) a Bangalore, Karnataka based proprietorship concern is engaged in manufacturing of power distribution equipment's such as copper flexible, busbar, copper connector etc. Amba mainly caters to electrical and power sectors. Amba is promoted by Mr. MA Subh Rao, who is in the sector for more than three decades. It has two manufacturing units at Peenya, Bangalore.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Established in 1985, Amba has a long operational track record of more than three decades in the industry. Mr Subh Rao, promoter is ably supported by qualified and experienced professional team of management. Amba has reputed clientele like ABB India Pvt Ltd., TD Power Systems Ltd., Regen Powertech Pvt Ltd., AI Ahleia Switchgear Co Ltd. among others. Its major markets in India is Karnataka and Andhra Pradesh to an extent of about 60 per cent of its revenues; and balance from overseas market like Kuwait. Amba has an unexecuted order book of about Rs.23 crores as of April 2018 which gives adequate revenue visibility for FY2019 (refers to financial year, April 1st to March 31st). SMERA believes that Amba continues to enjoy the benefit of its long operational track record in improving its business risk profile over the medium term.

Moderate financial profile

Financial risk profile of Amba is marked by healthy gearing and comfortable debt protection metrics though underpinned by modest networth. Amba's gearing is healthy at 0.96 times as on March 31, 2017 and modest networth of Rs.4.27 crores. Amba has taken up a moderate capital expenditure (capex) programme for purchase of a unit for expansion of its manufacturing capacity; the project costs about Rs.6.0 crore, and the same is proposed to be funded out of term loan of Rs.5.0 crores and balance out of internal controls. The project is expected to be available for operations by September 2018. Despite the proposed capex, the gearing is expected to be healthy at below 1.0 time over the medium term. Its debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 3.29 times and 0.17 times in FY2017. SMERA believes that with improving revenues, the debt protection metrics are expected to be comfortable.

Weaknesses

Working capital intensive operations and stretched liquidity

The operations are working capital intensive marked by Gross Current Assets days of (GCA) 140 in FY2017. Amba offers a credit period of about 90 days to its clientele and maintains an inventory of about 30 days of its requirement. Besides the working capital requirement, Amba keeps incurring capex on regular manner; In FY2019, its planning to spend about Rs.1.0 crore out of internal accruals for purchase of a unit for operations. Minimal reliance on external debt for the capex and moderate working capital intensive operations resulted in high utilization of bank lines at about 95 per cent over six months through March 2018. SMERA believes that the operations of Amba continues to be working capital intensive over the medium term on account of modest cash accruals.

Modest Revenues

Amba's revenues are modest despite its presence in the industry for over three decades. Its revenues in FY2018 are at Rs.24.9 crores on provisional basis; though, it's a significant improvement by over 100 per cent over FY2017, still the revenues are at modest. It has an order book position of about Rs.23.0 crores for deliverables in FY2019 and SMERA believes that its revenue profile is expected to be about Rs.30.0 crores to Rs.35.0 crores over the medium term.

Outlook: Stable

SMERA believes that Amba will maintain a 'Stable' outlook over the medium term owing to the experience of the management and established track record. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while improving its profitability and earlier-than-expected stabilization of its operations from the new unit. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its liquidity owing to capex and working capital intensive operations, or any inordinate delay in stabilization of its operations impacting its profitability.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	12.30	13.65	11.74
EBITDA	Rs. Cr.	1.31	1.22	0.99
PAT	Rs. Cr.	0.51	0.79	0.47
EBITDA Margin (%)	(%)	10.67	8.94	9.39
PAT Margin (%)	(%)	4.13	5.82	4.02
ROCE (%)	(%)	16.66	21.59	36.63
Total Debt/Tangible Net Worth	Times	0.96	0.71	0.95
PBDIT/Interest	Times	3.29	3.80	2.88
Total Debt/PBDIT	Times	2.83	1.87	2.42
Gross Current Assets (Days)	Days	140	156	186

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

Manufacturing Entities- <https://www.smera.in/criteria-manufacturing.htm>

Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>

Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.60	SMERA BB/Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.90	SMERA BB/Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+

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ABOUT SMERA

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