

Press Release

NEW ERA SWITCHGEARS PRIVATE LIMITED

August 03, 2018

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 9.00 Cr. |
| Long Term Rating | ACUITE B / Outlook: Stable |
| Short Term Rating | ACUITE A4 |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 9.00 crore bank facilities of NEW ERA SWITCHGEARS PRIVATE LIMITED. The outlook is '**Stable**'.

New Era Switchgears Private Limited (NSPL), based in Ujjain (Madhya Pradesh), was established as a partnership firm in the year 1982 and was converted into a private limited company in 1998 by Mr. Mohsin Ali Merchant and Mr. Asgar Ali Badshah. NSPL is engaged in the tender-based business of manufacturing of electrical switchgears which are typically the combination of electrical switches or fuses used by various state electricity boards.

Key Rating Drivers

Strengths

• Experienced Management

The management of New Era Switchgears Private Limited (NSPL) is headed by Mr. Mohsin Ali Merchant and Mr. Asgar Ali Badshah, who have more than four decades of experience in the manufacturing of electrical switchgears. The promoters have long-standing relationships with suppliers and customers like MPEB (Madhya Pradesh Electricity Board), UPEB (Uttar Pradesh Electricity Board), and MSEB (Maharashtra State Electricity Board) to name a few. Acuite believes that NSPL will continue to benefit from the extensive experience of its promoters.

• Improvement in scale of operations

The scale of operations of NSPL is growing marked by operating income of Rs. 5.40 crore in FY2018 (Provisional) as against Rs. 3.89 crore in FY2017. Further, NSPL has booked revenue of Rs.2.00 crore as on 30th June 2018 and the current unexecuted order book position stands at Rs. ~ 8.00 crore to be executed by the month of October 2018, which provides revenue visibility over the medium term. Acuite believes that the ability of NSPL to improve its revenue over the medium term will be a factor of key rating sensitivity.

Weaknesses

• Average financial risk profile

The financial risk profile of NSPL is average marked by small net worth, high gearing and moderate debt protection metrics. The tangible net worth stood at Rs. 1.48 crore as on 31 March 2018 (Provisional) as against Rs. 1.44 crore as on 31 March 2017. The debt/equity ratio stood at 2.20 times as on 31 March 2018 (Provisional) as against 1.43 times as on 31 March 2017. The total debt of Rs. 3.25 crore outstanding as on 31 March 2018 (Provisional) comprises of Rs. 1.09 crore as unsecured loan from the promoters and Rs. 2.15 crore as working capital borrowing from the bank. The interest coverage ratio is moderate at 1.55 times in FY2018 (Provisional) as against 1.73 times in FY2017. Total outside liabilities to tangible net worth (TOL/TNW) stood at 2.74 times as on 31 March 2018 (Provisional) as against 2.02 times as on 31 March 2017. The net cash accruals stood at Rs. 0.15 crore in FY2018 (Provisional) as against Rs. 0.08 crore in FY2016. However the company has no long term debt obligation. Acuite believes that the financial risk profile of NSPL will remain average in the medium term due to limited cash accruals.

• Working capital intensive operations

NSPL has shown improvement in working capital cycle however, its operations continue to remain working capital intensive marked by Gross Current Asset (GCA) days of 239 in FY2018 (Provisional) as against 308 in FY2017. This is majorly on account of high inventory holding period which stood at 137 days in FY2018 (Provisional) as against 195 days in FY2017. The receivables days stood at 98 in FY2018 (Provisional) as against 99 in FY2017. The company gets extended credit period of ~70 days from its suppliers which moderates working capital requirement to some extent. The current ratio remained steady at 1.59 times in FY2018 (Provisional) as against 1.58 times in FY2017. The working capital bank limit is also highly utilized for last six months, ended June 2018. Acuite believes the ability of NSPL to maintain sufficient funds for working capital requirements will be a factor of key rating sensitivity.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of New Era Switchgears Private Limited.

Outlook: Stable

Acuite believes NSPL will maintain stable outlook over the medium term on the back of established operations and long standing experience of the promoters. The outlook may be revised to 'Positive' in case of significant improvement in NSPL's scale of operations and cash accruals, while maintaining its debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in profitability and accruals, or further elongation of the working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY18 (Provisional) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 5.40 | 3.89 | 4.79 |
| EBITDA | Rs. Cr. | 0.36 | 0.18 | 0.21 |
| PAT | Rs. Cr. | 0.04 | 0.01 | 0.01 |
| EBITDA Margin | (%) | 6.74 | 4.75 | 4.44 |
| PAT Margin | (%) | 0.76 | 0.20 | 0.22 |
| ROCE | (%) | 7.42 | 3.70 | 4.49 |
| Total Debt/Tangible Net Worth | Times | 2.20 | 1.43 | 1.56 |
| PBDIT/Interest | Times | 1.55 | 1.73 | 1.84 |
| Total Debt/PBDIT | Times | 7.94 | 9.82 | 9.71 |
| Gross Current Assets (Days) | Days | 239 | 308 | 270 |

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Not Applicable

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-----------------------------|-------------------|
| Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE A4 |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE B / Stable |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE B / Stable |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A4 |

Contacts

| Analytical | Rating Desk |
|--|---|
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About Acuité Ratings & Research:

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