

Press Release

Ramdev Motors

August 14, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.78 crore
Long Term Rating	ACUITE B+/ Stable (Assigned)

* Refer Annexure for details

Acuité has assigned long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs. 8.78 crore bank facilities of Ramdev Motors (RM). The outlook is '**Stable**'.

Established in 1986 and taken over by Mr. E K Ponnuswamy in 2005, Ramdev Motors (RM) is engaged in manufacturing of electric motors and water pumps. Based in Coimbatore (Tamil Nadu), RM is managed by Mr. E K Ponnuswamy and Nagarajan N. Prior to take over, the partners were into similar line of business. Entire revenues of RM are from Crompton Greaves group for supply of electric motors and water pumps. It manufactures single and three phase motors used in HVAC, box strapping machine, jewellery making machine, sugarcane making machines, washing machine, vacuum pumps, compressors motors among others. It also manufactures centrifugal pumps, self-priming pumps, jet pumps and multistage pumps.

Key Rating Drivers

Strengths:

- Extensive experience of Partners and established relation with its key principal**

The partners have two decades of experience in electrical industry which has helped RM build healthy relationship with its stakeholders, to ensure a steady raw material supply and large offtake. RM was into job work activity on smaller scale during 2005 to 2010. To take the business on a larger scale, RM started manufacturing of electric motors in 2010; its current installed manufacturing capacity is 1.5 lakh units p.a.

Post stabilization of the electric motors business and growing business opportunities from its key customer – Crompton Greaves Group (Crompton Greaves Consumer Electricals Ltd and CG Power and Industrial Solutions Ltd), it ventured into manufacturing of water pumps with installed capacity of manufacturing 2 lakh units p.a in 2015. RM has been dealing with Crompton Greaves group for nearly a decade now, which depicts its long standing and established relation with its key principal. This has helped the firm register healthy growth in revenue from Rs.6.66 crore in FY2016 to Rs.27.58 crore (Provisional) in FY2018, though modest. Acuité believes that partners' extensive industry experience and its established relation with its key principal – Crompton Greaves group would aid the business risk profile of the firm over the medium term.

Weaknesses:

- **Moderate working capital management**

RM's operations are moderately working capital intensive with Gross Current Assets (GCA) of about 180 days as of March, 2018 on provisional basis. The moderate GCA days are marked by moderate inventory and debtor days but partially assuaged by higher credit period extended by suppliers. RM maintains an average inventory of around 2-3 months for smooth running of operations. The inventory is order backed. Crompton group gives quarterly forecast and confirm the orders at the beginning of the month. According to inventory forecast provided, it procures the raw materials mainly copper wires, aluminium sheets, bearings among others from approved vendors of Crompton Greaves group as well all other vendors for smaller components; forecast based procurement leads to lower pricing risk associated with its raw material prices. RM receives payments against credit period of maximum 60 days from its customers. The high inventory days and moderate debtor days is partially assuaged by the extended credit period of 90-120 days from its suppliers on the back of strong counter-party risk. The bank lines of Rs.3.25 crore have remained almost fully utilised over the last six months ending June, 2018. Acuite believes that the working capital cycle would remain moderate over the medium term.

- **Steady ramp up in revenue with modest scale and customer concentration in revenue**

RM's revenue has been steadily growing from Rs.6.60 crore in FY2016 to Rs.27.58 crore in FY2018 on provisional basis; despite sharp growth in revenues, they are modest. The scale of operations is primarily constrained by customer concentration – primarily serving Crompton Greaves group in a highly fragmented electrical component and water pumps equipment industry which is also dominated by a few large players and numerous small ones. Although positive traction in revenue is expected to continue over the medium term supported by higher capacity utilisation resulting from increasing demand of Crompton Greaves group, the scale of operations is expected to improve yet remain modest.

- **Below-average financial risk profile**

RM's financial risk profile is marked by modest capital structure and debt protection metrics. RM's modest capital structure is marked by high gearing at 5.35 times and low net worth of Rs.1.01 crore as on 31 March, 2018 on provisional basis. Gearing has remained high due to its low net worth and high debt levels. Net worth is low of Rs.1.01 crore as on 31 March, 2018 (Provisional) vis-à-vis Rs.0.67 crore as on 31 March, 2017 and high debt levels of Rs.5.37 crore as on 31 March, 2018 (Provisional) as against Rs.5.46 crore as on 31 March, 2017. Total outside liabilities to tangible net worth (TOL/TNW) remained high at 15.93 times as on 31 March, 2018 (Provisional) vis-à-vis 17.02 times as on 31 March, 2017. RM's modest net cash accruals and high debt has led to modest net cash accruals to total debt (NCA/TD) and interest coverage ratio of 0.23 times and 3.62 times respectively in FY2018 (Provisional) vis-à-vis 0.10 times and 2.76 times respectively in FY2017. With improving topline underpinning higher net cash accruals, the capital structure and the debt protection metrics are expected to improve over the medium term.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of RM to arrive at this rating.

Outlook:

Acuite believes that RM will maintain a 'Stable' outlook on the back of the managements' extensive experience and its established relationships with its key principals. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profit margins while improving the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	27.58	13.68	6.66
EBITDA	Rs. Cr.	1.91	0.99	0.38
PAT	Rs. Cr.	0.35	0.15	0.08
EBITDA Margin	(%)	6.91	7.26	5.74
PAT Margin	(%)	1.27	1.10	1.14
ROCE	(%)	16.50	15.49	23.26
Total Debt/Tangible Net Worth	Times	5.32	8.15	1.47
PBDIT/Interest	Times	3.62	2.76	2.50
Total Debt/PBDIT	Times	2.80	5.48	2.03
Gross Current Assets (Days)	Days	180	245	138

Status of non-cooperation with previous CRA:

None

Any other information:

None

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: - <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE B+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.28	ACUITE B+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE B+/Stable (Assigned)

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About Acuité Ratings & Research:

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