

Press Release

Abirami Electronics Private Limited

January 06, 2020

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 7.10 Cr. |
| Long Term Rating | ACUITE B+/ Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 7.10 crore bank facilities of ABIRAMI ELECTRONICS PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 1993, Abirami Electronics Private Limited (AEPL) is a Coimbatore (Tamil Nadu) based company engaged in manufacturing of sheet metal enclosures. AEPL offers a wide range of products which include large fabricated items to miniature precision sheet metal components such as Electronic Enclosures, Racks & Cabinets, Panels and Textile machinery enclosures with accessories as well as precision machined components. The day-to-day operations are managed by managing director Mr. S Othiappan.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Extensive experience of Management**

The rating draws comfort from the long standing experience of the promoters. Mr. S. Othiappan has experience of more than three decades in manufacturing and fabrication of sheet metal enclosures, machining and electro mechanical assembly. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers of the company include reputed names like Larsen & Tourbro Ltd, TVS Electronics Pvt Ltd. Through active participation, the partners have been able to build strong relations with customers and suppliers.

Acuite believes that the company will continue to benefit from the experience of its management and established relations with its customers and suppliers.

Weaknesses

- **Below average financial risk profile**

AEPL's financial risk profile is below average marked by a low net worth, moderate capital structure and debt protection metrics. The net worth of the company stood at Rs. 2.59 crore as on March 31, 2019 as against Rs. 2.39 crore as on March 31, 2018. Company's capital structure is highly leveraged marked by gearing (debt-equity) and total outside liabilities to tangible net worth (TOL/TNW) levels of 3.11 times and 4.23 times respectively as on March 31, 2019 vis-à-vis 3.07 times and 4.39 times as on March 31, 2018. The debt protection metrics have moderate marked by interest coverage ratio (ICR) of 2.76 times in FY2019 vis-à-vis 2.86 times in FY2018.

Acuite believes that with moderate accruals and modest repayment obligations, the financial risk profile is expected to improve marginally over the medium term.

- **Working capital intensive nature of operation**

AEPL operations are working capital intensive by nature which is marked by gross current asset day (GCA) of 189 days during FY 2019 as compared to 141 days in FY 2018. Inventory and debtors days stand at 120 and 82 days respectively in FY 2019 as compared to 73 and 64 days in FY 2018. The company maintains high inventory level to manufacture customized products as per the customer requirements. Acuite expects the operations of the company to remain working capital intensive on account of the high

inventory levels maintained.

- Presence in highly competitive and fragmented industry**

The company is engaged in manufacturing and fabrication of sheet metal enclosures and other precision steel metal components. The industry is highly fragmented and unorganized. AEPL is exposed to intense competitive pressure from large number of organized and unorganized players along with its exposure to inherent cyclical nature of the steel industry.

Liquidity position: Stretched

AEPL has stretched liquidity. Working Capital management is stressed which is indicated by sequential rise in GCA days over the last 3 years. The company's gross current asset (GCA) days stood at 189 days for FY2019 as against 141 days for FY2018 and 114 days as for FY2017. This is due to their high inventory cycle of 4 months that lead to the bank limit utilization of ~90%. The company generated cash accruals of Rs.1.00 to 1.20 crore during the last three years through 2018-19, while it's maturing debt obligations were in the range of Rs. 0.12 crore to Rs. 0.61 crore over the same period. The cash accruals of the company are estimated to be around Rs. 1.20 to 1.70 crore against the repayment of obligation of Rs. 0.85 crore.

Acuite believes that going forward, the liquidity position of the firm will continue to remain stretched in the medium term on account of moderate cash accruals to its repayment obligations.

Rating Sensitivities

- Significant improvement in revenues while maintaining the profitability
- Further stretch in liquidity

Material Covenants

None

Outlook: Stable

Acuite believes that AEPL will continue to benefit over the medium term from its promoters experience. The outlook may be revised to 'Positive' in case of significant and sustained increase in the firm's revenues and profitability margins, while improving its capital structure. Conversely, the outlook may be revised to 'Negative' if there is a significant decline in the company's revenues or profitability margins.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 16.02 | 15.43 |
| PAT | Rs. Cr. | 0.21 | 0.27 |
| PAT Margin | (%) | 1.28 | 1.72 |
| Total Debt/Tangible Net Worth | Times | 3.11 | 3.07 |
| PBDIT/Interest | Times | 2.76 | 2.87 |

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

None

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/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 |
|------------------------|------------------|----------------|----------------|-------------------------------|------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 3.50 | ACUITE B+/Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 2.81 | ACUITE B+/Stable |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.79 | ACUITE B+/Stable |

Contacts

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About Acuité Ratings & Research:

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