

## Press Release

### The Indian Electric Company

April 09, 2021

#### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 23.00 Cr.
<b>Long Term Rating</b>	ACUITE BB/ Outlook: Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A4+ (Assigned)

\* Refer Annexure for details

#### Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE Double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.23.00 Cr bank facilities of The Indian Electric Company (IEC). The outlook is '**Stable**'.

The rating takes into account the extensive experience of partners, long track record of operations and their established relations with customers and suppliers. The rating also takes into account the moderate financial risk profile of the firm, albeit inherent risk of capital withdrawal by partners. These strengths are partially offset by modest scale of operations and working capital intensive nature of operations. Going forward, improvement in the scale of operations without any deterioration in the profitability and maintenance of the capital structure of the Firm will be a key monitorable. Further, withdrawal of capital will impart negative bias to the rating.

#### About the Firm

Constituted in 1976, IEC is a Pune based partnership firm primarily engaged in trading of three-phase electric motors. Mr. Jagannath Ghodke, Mr. Uday Ghodke, Mrs. Suvarna Ghodke, Mr. Gaurav Ghodke and Mr. Mayur Ghodke are partners of the Firm. IEC is an authorized dealer for electric motors of Siemens India Limited, Bharat Bijlee, Crompton Greaves and for geared motors of Nord Drive Systems Private Limited. It also has authorized dealership of the industrial product segment of Havells India Limited. IEC has a spare parts division and service division providing rewinding services and other maintenance services for electric motors and alternators.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profile of IEC for arriving at this rating.

#### Key Rating Drivers

##### Strengths

##### • Extensive experience of the partners, long track record of operations and established relations with customers and suppliers

Mr. Jagannath Ghodke along with his two sons Mr. Uday Ghodke and Late Mr. Anil Ghodke constituted IEC in 1976. Mrs. Suvarna Ghodke, Mr. Gaurav Ghodke and Mr. Mayur Ghodke were inducted as partners in 2010 and have since been involved in day to day operations the Firm. Over its four decades of operations IEC has been primarily engaged in trading of electric motors. It has been associated with Siemens India Limited for more than two decades. Its association with Bharat Bijlee has been ongoing since past fourteen years. It has catered to clients across industries, including machine tools industry, material handling industry, chemical and pharmaceutical industry, dairy and cattle feed industry, steel industry, cement industry, crusher industry etc.

Acuite believes that IEC will continue to benefit from the extensive experience of its partners and its established relations with its customers and supplier base.

##### • Moderate financial risk profile, albeit inherent risk of capital withdrawal by partners

IEC's financial risk profile is modest marked by modest debt protection metrics and moderate net-worth.

IEC's net-worth stood at Rs.12.23 Cr as on March 31, 2020 against Rs.13.79 Cr as on March 31, 2019. The reduction in net worth was on account of higher withdrawal of capital vis-à-vis accretion of profits during the period. The overall gearing stood at 1.38 times as on March 31, 2020 as against 1.08 times as on March 31, 2019. The interest coverage reduced to 1.18 times for FY2020 from 1.59 times for FY2019. The Debt to Ebitda ratio increased to 5.72 times in FY2020 from 5.19 times in FY2019. The Total Outside Liabilities to Tangible Net-worth stood at 1.82 times as on March 31, 2020 as against 1.64 times as on March 31, 2019.

Acuité expects IEC's financial risk profile to remain moderate over the medium term, however, any further withdrawal of capital will be a key rating sensitivity.

## Weaknesses

### • Modest scale of operations

IEC primarily trades in three phased electric motors. The operating income of the Firm stood at Rs.47.86 Cr in FY2020, Rs.60.18 Cr in FY2019 and Rs.39.30 Cr in FY2018. The operating margins have fluctuated during the same period and stood at 5.85 percent in FY2020, 4.29 percent in FY2019 and 2.77 percent in FY2018. The Firm has earned an operating income of Rs.33.29 Cr during 10MFY21. The Firm plans to diversify its product portfolio in the near to medium term. In line with its plans, the Firm recently obtained authorized dealership for the industrial product segment of Havells India Limited which includes heavy duty fans, professional lighting, cables, motors, switchgears, power quality solutions etc and for geared motors of Nord Drive Systems Private Limited.

Acuité believes IEC's ability to improve its scale of operations without deterioration in profitability will be a key monitorable.

### • Working capital intensive nature of operations

IEC's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 250 days as on March 31, 2020 and 208 days as on March 31, 2019. The same is mainly driven by inventory days and debtor days of 131 days and 93 days respectively as on March 31, 2020 and 106 days and 75 days respectively as on March 31, 2019. IEC maintains high inventory levels as the order delivery lead time extends to 4-12 weeks from its suppliers. On the other hand, it receives a credit period of 45 days leading to higher reliance on working capital limits. The six months' average bank limit utilization for period ended January, 2021 stood at 56 percent.

Acuité expects the operations of the firm to remain working capital intensive on account of high inventory levels maintained by the Firm and extended credit period offered to its customers.

## Liquidity Position: Stretched

The Firm generated net cash accruals of Rs.0.46 Cr and Rs.1.07 Cr in FY2020 and FY2019, respectively while it had no significant debt obligation to pay during the same period. The cash accruals of IEC are expected to remain in the range of Rs. 0.15 – 1.17 Cr over the medium term, while its repayments are estimated to be in the range of Rs. 0.92 – 1.74 Cr for the same period. The Gross Current Asset (GCA) days were around 250 days estimated as on March 31, 2020 and the unencumbered cash and bank balance was Rs. 0.14 Cr as on March 31, 2020. The working capital intensive nature of operations make the firm dependent on bank borrowings. The average bank limit utilization of its fund based facility for the six months ended January, 2021 was 56 percent. The current ratio was 1.48 times as on March 31, 2020. Acuité believes that the liquidity of the Firm is likely to remain stretched over the medium term on account of low cash accruals against debt repayments and working capital intensive nature of operations.

## Material Covenants

None

## Rating Sensitivities

- Ability of the Firm to improve its scale of operations without deteriorating its operating margins
- Any further withdrawal of capital

## Rating Outlook: Stable

Acuité believes that IEC will maintain a stable outlook over medium term on account of extensive experience of its partners, long track record of operations, established relations with customers and suppliers and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm achieves higher than expected improvement in its scale of operations while maintaining its profitability.

Conversely, the outlook may be revised to 'Negative' in case of slower than expected growth in scale of operations or any further withdrawal of capital leading to deterioration in debt protection metrics.

### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	47.86	60.18
PAT	Rs. Cr.	0.25	0.82
PAT Margin	(%)	0.51	1.37
Total Debt/Tangible Net Worth	Times	1.38	1.08
PBDIT/Interest	Times	1.18	1.59

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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/view-rating-criteria-55.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE BB/Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Assigned)
Stand by Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB/Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE BB/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE BB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE A4+ (Assigned)

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## About Acuité Ratings & Research:

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