

Press Release

The Indian Electric Company

July 01, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.50	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	20.50	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	23.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

Rationale for Rating

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 increase in scale of operations in FY2022 to Rs.79.92 crores from Rs.42.67 crores in FY2021. However, the rating remains constrained by working capital intensive nature of operations and competitive nature of the industry.

About the Company

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 of 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 eighteen 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. The company has recorded an operating income of Rs.79.92 crores in FY2022 (Prov) as against Rs.42.67 crores in FY2021 and Rs.47.86 crores in FY2020. The revenue of the company has increased by 87.27 percent in FY2022 (Prov) as there was increase in demand of orders from Siemens towards 3rd Quarter of 2021-22. Further, the Company is targeting a revenue of around Rs.100 crores for FY2023. The firm plans to diversify its product portfolio in the near to medium term. In line the Firm plans taking authorized dealership for the industrial product segment of Kirloskar Motors and Marathon Electric Motors.

Acuité 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

The financial risk profile of the company stood moderate marked by moderate net worth, gearing and debt protection metrics. The tangible net worth stood at Rs.11.72 crore as on 31 March, 2022 (Prov) as against Rs.11.25 crore as on 31 March, 2021 and Rs.12.23 crore as on 31 March, 2020. The total debt of the company stood at Rs.16.00 crore includes Rs.2.76 crore of long term debt, Rs.11.33 crore of short term debt, Rs.0.92 crore of unsecured loans and Rs.1.00 crore of CPLTD as on 31 March, 2022 (Prov). The gearing (debt-equity) stood at 1.37 times as on 31 March, 2022 (Prov) as compared to 1.41 times as on 31 March, 2021 and 1.38 times as on 31 March, 2020. Interest Coverage Ratio stood at 1.50 times for FY2022 (Prov) as against 1.29 times for FY2021 and 1.18 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 1.50 times in FY2022 (Prov) as against 1.22 times in FY2021 and 1.18 times in FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 2.01 times as on 31 March, 2022 (Prov) as against 1.98 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.07 times for FY2022 (Prov).

Acuité expects IEC's financial risk profile to remain moderate over the medium term.

Weaknesses

>Intensive Working Capital Management

The working capital management of the company is Intensive marked by GCA days of 153 days in FY2022 (Prov) as against 273 days in FY2021 and 250 days in FY2020. The debtor days stood at 48 days in FY2022 (Prov) as against 90 days in FY2021 which is in line with the average credit period allowed to customers of 30-90 days. However, the creditor days stood at 35 days in FY2022 (Prov) as against 48 days in FY2021. The average credit period allowed by suppliers is around 45 days. Also, the inventory days stood at 83 days in FY2022 (Prov) as against 154 days in FY2021. It generally maintains high inventory levels as the order delivery lead time extends to 4-12 weeks from its suppliers, depending on the product type.

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

>Highly competitive nature of industry with thin profitability margins

The company operates in an industry which is highly fragmented and competitive in nature. Dealers generally face a stiff competition from the other dealers in the market. Due to highly competitive nature of industry, profitability margins are thin.

>Risk of capital withdrawal

There is a risk of capital withdrawal from the partnership firm. The net worth of the firm stood at Rs.11.72 crore as on March 31, 2022 (Prov) compared to Rs.11.25 crore as on March 31, 2021 and Rs.12.23 crore as on March 31, 2020. Any substantial withdrawal of capital by the

partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

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

Material covenants

None.

Liquidity Position: Adequate

The company's liquidity position is adequate marked by sufficient net cash accruals. The company has net cash accruals in the range of Rs.0.40-1.09 Crore from FY 2020- 2022 against its maturing repayment obligations of around 1.00 crore. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.2.67-Rs.2.96 crores against the maturing repayment obligations of around Rs.0.34-Rs.0.65 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 153 days in FY2022 (Prov) as against 273 days in FY2021. The company maintains unencumbered cash and bank balances of Rs.1.20 crore as on March 31, 2022 (Prov). The current ratio stands at 1.69 times as on March 31, 2022 (Prov). The average bank limit utilization for the past 06 months March 2022 is ~ 88.33 percent.

Acuité believes that the liquidity of the Firm is likely to remain adequate over the medium term on account of sufficient net cash accruals against debt repayments.

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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	79.92	42.67
PAT	Rs. Cr.	0.87	0.21
PAT Margin	(%)	1.09	0.49
Total Debt/Tangible Net Worth	Times	1.37	1.41
PBDIT/Interest	Times	1.50	1.29

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 Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Apr 2021	Working Capital Term Loan	Long Term	2.75	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	15.50	ACUITE BB Stable (Assigned)
	Letter of Credit	Short Term	0.10	ACUITE A4+ (Assigned)
	Standby Line of Credit	Long Term	1.50	ACUITE BB Stable (Assigned)
	Bills Discounting	Short Term	1.50	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.90	ACUITE A4+ (Assigned)
	Proposed Term Loan	Long Term	0.75	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE A4+ Reaffirmed
Bank of Maharashtra	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ Reaffirmed
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE BB Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE BB Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Working Capital Term Loan	Not available	7.50	30-06-2024	2.75	ACUITE BB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Siddharth Shah Management Trainee-Rating Operations Tel: 022-49294065 siddharth.shah@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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