

Press Release

Abaj Electronics Private Limited

August 16, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.8.00 crore bank facilities of Abaj Electronics Private Limited (AEPL). The outlook is '**Stable**'.

AEPL was incorporated in 2010 is a Gujarat based company and is promoted by Mr. Nirav Patel, Mr. Manish Patel, Mr. Dharmendra Patel and Mr. Sunil Patel. The company sells consumer durable products such as television sets, washing machines and air conditioners under brand name 'Abaj'. The promoters have a decade of experience in the consumer durable segment.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Abaj Electronics Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

• Healthy growth in revenue with stable margins

The company has reported healthy revenue growth with Compound Annual Growth Rate (CAGR) of around 35.09 percent through the last four years ended 31 March, 2018 (Provisional). The company reported significant revenue growth of ~53 percent with operating income of Rs.47.29 crore in FY2018 (Provisional) as against operating income of Rs.30.75 crore in FY2017 on account of expansion of distribution channel and diversified product portfolio. The operating margins of the company remained stable at around 4.5 percent in FY2018 (Provisional).

• Moderate financial risk profile

The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company is moderate at around Rs.15.54 crore as on 31 March, 2018 (Provisional) as against Rs.9.65 crore as on 31 March, 2017. The improvement in net worth is on account of equity infusion of Rs.4.36 crore by the promoters to support the incremental working capital requirements. The company has followed a conservative financial policy as reflected by peak gearing of 0.77 times over the last three years through 2017-18. The gearing of the company has further improved to around 0.65 times as on March 31, 2018 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.12 times as on 31 March, 2018 (Provisional) as against 1.21 times as on 31 March, 2017. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 2.33 times in FY2018 (Provisional) and 2.12 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March, 2018 (Provisional) as against 0.08 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.93 times for FY2018 (Provisional) as against 1.71 times in FY2017. Acuite believes that the financial risk profile of AEPL will continue to remain moderate over the medium term on account of its improving scale of operations and conservative financial policy.

Weaknesses

• Working capital intensive nature of operation

The working capital management is marked by Gross Current Assets (GCA) of 247 days in FY2018 (Provisional) as against 236 days in FY2017. The company maintains inventory of around 75 days on an average and extends clean credit of around 120 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 105 days and 73 days in FY2018 (Provisional) as against 47 days and 113 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at ~100 percent in the last six months. Acuite believes that the working capital requirements will continue to remain high over the medium term on account of its high inventory requirements to cater to spot orders.

• Presence in competitive consumer electronic business

AEPL faces stiff competition from a large number of players in the consumer electronic business segment. The online market players also pose a major threat to the entire consumer durables market. The extensive discounts offered and convenience in online shopping with early delivery and easy cash payment facilities proves to be a major hurdle to consumer durable business.

Outlook: Stable

Acuite believes that AEPL will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in AEPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	47.29	30.75	26.37
EBITDA	Rs. Cr.	2.28	1.38	0.90
PAT	Rs. Cr.	0.92	0.45	0.26
EBITDA Margin	(%)	4.82	4.48	3.43
PAT Margin	(%)	1.94	1.47	0.98
ROCE	(%)	11.01	9.52	7.48
Total Debt/Tangible Net Worth	Times	0.65	0.69	0.77
PBDIT/Interest	Times	2.33	2.12	2.20
Total Debt/PBDIT	Times	4.37	4.68	5.34
Gross Current Assets (Days)	Days	247	236	179

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

Crisil, vide its press release dated May 22, 2018 had denoted the rating of AEPL as 'CRISIL B-/Stable/CRISIL A4; ISSUER NOT COOPERATING'.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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