

Press Release

General Auto Electric Corporation

July 24, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 9.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from **ACUITE BB+/Stable** (read as **ACUITE double B plus**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) from **ACUITE A4+** (read as **ACUITE A four plus**) to the Rs. 9.00 crore bank facilities of GENERAL AUTO ELECTRIC CORPORATION (GAEC). The outlook is '**Stable**'.

The rating upgrade is on account of consistent revenue growth along with improvement in operating margins. The improvement in operating margins are mainly on account of undertaking annual maintenance contracts with increasing demand for LED signals from railway sector. The revenue has increased to Rs.77.41 crore for FY2019(Provisional) from Rs.56.34 crore for FY2018. The firm currently has an order book of Rs.32.67 crore, thereby giving a revenues visibility for near to medium term. The debt protection metrics of the firm has significantly improved in FY2019 as compared to FY2017. Further, Acuité believes the financial risk profile and debt protection metrics of the firm to remain healthy with adequate liquidity position.

The Mumbai-based, General Auto Electric Corporation (GAEC) was established in 1959 as a partnership firm by Mr. Ramesh Gandhi and Mr. Gopal Gandhi. The day to day operations are handled by Mr. Hetal R. Gandhi (Partner) and Mr. Nehal G. Gandhi (Partner). GAEC is engaged in the manufacturing of LED signals, track circuit and rolling stock equipment which finds application in Railways. The manufacturing facilities are located at Vasai and Thane in Mumbai.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of General Auto Electric Corporation to arrive at the rating.

Key Rating Drivers

Strengths

• Revenue growth supported by experienced management

GAEC was established in 1959 by Mr. Ramesh Gandhi and Mr. Gopal Gandhi who have an experience of about six decades in the electronic components industry. Presently, the promoters are supported by second generation, Mr. Hetal R. Gandhi (Partner) and Mr. Nehal G. Gandhi (Partner), who possess an industry experience of over four decades of experience in the said industry.

The partners' longstanding experience helped GAEC in securing repeated orders from Indian Railways. The firm is engaged in manufacturing of LED Signals, Track circuit and Rolling Stock equipment used in Railways since 1959, thus having a long track record of operations. The firm has reported a compound annual growth rate (CAGR) of about 33 percent over four years through FY2019, with revenues of about Rs. 77.41 crore in FY2019 (Provisional). The growth in revenues is due to undertaking annual maintenance contracts from last two years which has also impacted positively on operating margins of the firm. Also, the increasing demand and infrastructure development in railways sector also fueled the revenue growth.

• Healthy financial risk profile

GAEC's financial risk profile is marked by healthy net worth, low gearing and healthy debt protection measures. The net worth increased to Rs.27.59 crore as on 31 March, 2019 (Provisional) as against Rs.16.96 crore in the previous year. The firm's gearing stood low at 0.29 times as on 31 March, 2019 (Provisional) as against 0.31 times in the previous year.

The firm has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.31 times as on March 31, 2018. The total debt of Rs.8.14 crore consists of long term debt of Rs.0.37 crore, Rs.5.91 crore from supplier's credit and unsecured loan from relatives and Rs. 1.85 crore from working capital limits. The moderate profitability levels have resulted in healthy net cash accruals of Rs.4.94 crore during 2019, while the debt levels have remained low at around Rs.0.11 crore during the same period, leading to healthy debt protection measures. The interest coverage ratio stood at 15.38 times in FY19 (Provisional) as against 8.95 times in the previous year. NCA/TD ratio stood 0.61 times in FY2019 (Provisional). Acuite believes that the financial risk profile will continue to remain healthy on account of healthy cash accruals.

• Reputed Clientele and healthy order book position

Over the years, the firm has developed long standing relationships with its reputed clients. GAEC caters mainly to the Indian railways. GAEC has orders in hand of Rs.32.67 crore which is to be executed within three to six months.

Weaknesses

• Working capital intensive operations

GAEC's operations are working capital intensive marked by Gross Current Assets (GCA) of 168 days in FY2019 (Provisional) as against 150 days in FY2018. This is mainly on account of high collection days of 121 days in FY2019 (Provisional) as against 104 days in FY2018. The inventory level stood at 32 days in FY2019 (Provisional) as against 31 days in FY2018. The average utilization of bank limits stood low at ~25 percent in the last eleven months for the month ended June, 2019.

Liquidity Position

GAEC has adequate liquidity marked by moderate net cash accruals. The firm generated cash accruals of Rs.1.99 to Rs. 4.94 crore during the last three years through 2017 -19. The cash accruals of the firm are estimated to remain at around Rs.6.22 to Rs. 8.62 crore during 2020- 22. The firm's working capital operations are moderately intensive as marked by Gross Current Asset (GCA) days of 168 in FY 2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs.0.89 crore as on March 31, 2019 (Provisional). The current ratio of the firm stood average at 5.50 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual.

Outlook: Stable

Acuite believes that GAEC will maintain a stable outlook over the medium term on account of its experienced management and established market position. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenue and accruals along with improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	77.41	56.34	40.35
EBITDA	Rs. Cr.	6.96	4.49	2.91
PAT	Rs. Cr.	4.54	2.56	1.68
EBITDA Margin	(%)	8.99	7.97	7.21
PAT Margin	(%)	5.87	4.54	4.16
ROCE	(%)	24.05	14.76	11.44
Total Debt/Tangible Net Worth	Times	0.29	0.31	0.28
PBDIT/Interest	Times	15.38	8.95	9.83
Total Debt/PBDIT	Times	1.10	1.60	1.71
Gross Current Assets (Days)	Days	168	150	141

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-May-2018	Cash Credit	Long Term	5.00	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Short term	4.00	ACUITE A4+ (Assigned)

*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	5.00	ACUITE BBB / Stable (Upgraded from ACUITE BB+)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+ (Upgraded from ACUITE A4+)

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About Acuite Ratings & Research:

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