

Press Release

General Auto Electric Corporation

February 03, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.9.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BB+)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB+**' (**read as ACUITE triple B plus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating to '**ACUITE A2**' (**read as ACUITE A two**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.9.00 Cr. bank facilities of General Auto Electric Corporation (GAEC). The outlook is '**Stable**'.

Rationale for Upward Revision in ratings

The rating was earlier 'Downgraded & marked as Indicative' as per the press release dated October 16, 2020 on account of non-cooperation resulting in information risk. The firm has now cooperated with Acuité for the review.

The rating upgrade is further on account of Y-O-Y improvement in the Business and Financial risk profile of the firm. This is reflected in Y-O-Y improvement in revenues and profitability metrics, healthy order book of ~Rs.40.00 crore for next 6 months and improvement in debt protection metrics.

About the Firm

General Auto Electric Corporation (GAEC) is a Mumbai-based partnership firm established in 1959 by Mr. Ramesh Gandhi, Mr. Gopal Gandhi. The day to day operations are handled by Mr. Hetal R. Gandhi (Partner) and Mr. Nehal G. Gandhi (Partner) as the current partners of the firm. The firm is engaged in the manufacturing of Signal, Telecom, Rolling stock and DC Power Supplier equipments for the Indian Railways and several private sector entities in similar line of business. The firm has manufacturing facilities located at Vasai and Thane in Mumbai.

Analytical Approach

Acuité has considered the standalone view of the business and financial risk profile of GAEC 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. The current partners of the firm are Mr. Ramesh Gandhi, Mr. Hetal Gandhi, Mr. Nehal Gandhi, Mrs. Purna Gandhi and Mr. Geet Gandhi who possess an industry experience of over four decades in the same line of business. The partners' longstanding experience has helped GAEC in securing repeated orders from the Indian Railways and private sector entities.

Acuité believes that GAEC will continue to benefit from the partners' experience in the industry, its established presence and improving business risk profile over the medium term.

- **Strong business risk profile**

GAEC reported a compound annual growth rate (CAGR) in its revenue of ~27.00 percent during the FY2017-20 period, with revenue of Rs.82.54 Cr. in FY2020 as against Rs.77.35 Cr. in FY2019. The growth in revenues is on account of consistent orders received and also due to undertaking of annual maintenance contracts since past three years which has also positively impacted the operating margins of the firm. This is reflected

in its operating (EBITDA) margins of 17.92 percent in FY2020 as against 8.85 percent in FY2019, while the PAT margins stood at 10.86 percent in FY2020 as against 5.33 percent in FY2019. The firm's ability to efficiently utilise its asset base and partners capping their remuneration to ensure sufficient funds has also improved its ROCE (Return on Capital Employed) to 27.85 percent in FY2020 as against 16.61 percent.

Acuité believes that the company will be able to sustain growth in revenue and profitability margins with the increasing demand and infrastructure development in railways sector thus improving the overall business risk profile of the firm.

- **Healthy financial risk profile**

GAEC has healthy financial risk profile marked by moderate tangible net worth, low gearing and healthy debt protection metrics.

The tangible net worth of the firm stood at Rs.30.13 Cr. as on March 31, 2020 as against Rs.25.07 Cr. as on March 31, 2019. The Gearing (Debt to Equity) stood at 0.28 times as on March 31, 2020 as against 0.32 times as on March 31, 2019. The debt profile majorly comprises of short term debt (fund based working capital facilities) of Rs.5.89 Cr, unsecured loans of Rs.2.00 Cr. and long term debt of 0.50 Cr. as on March 31, 2020. The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) stood healthy at 0.67 times as on March 31, 2020 as against 0.62 times as on March 31, 2019.

The debt protection metrics have improved significantly with ICR (Interest Coverage Ratio) at 10.05 times in FY2020 as against 2.33 times in FY2019. The DSCR (Debt-Service Coverage Ratio) stood at 1.79 times in FY2020 as against 1.93 times in FY2019. The NCA/TD (Net Cash Accrual to Total Debt) stood at 0.07 times as in FY2020 as against 0.13 times in FY2019 and 0.34 times in FY2018.

Acuité believes that the stability in the financial risk profile of the firm will be a key rating sensitivity factor.

- **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 and private sector entities in similar line of business. GAEC currently has orders in hand of ~Rs.40.00 Cr. As on December 31, 2020 which is to be executed within the next three to six months, thus giving revenue visibility in the near to medium term.

Weaknesses

- **Intensive working capital requirements**

GAEC has intensive working capital requirements marked by high Gross Current Asset (GCA) of 179 days in FY2020 as against 161 days in FY2019. The Inventory holding period of GEAC stood at 35 days in FY2020 as against 32 days in FY2019. While the Debtors stood at 127 days in FY2020 as against 121 days in FY2019. The average utilisation of its fund based facilities stood at ~80 percent while the non-fund based facilities remain 100 percent utilised for the 6 month period ended December 2020.

Acuité believes that improvement or any further deterioration in the working capital management of GAEC will remain key rating sensitivity factor.

- **Highly competitive industry, concentration risk and risk of capital withdrawal**

The firm operates in highly fragmented industry and faces competition from large number of organized, integrated and unorganized players catering to the Indian Railways.

Further, its revenues solely depend on the plans, policies and expenditure / expansion budget drawn up by Indian Railways thus resulting in the concentration risk in its customer profile and the repayment periods being dictated by the customer.

Further, the firm is associated with the risk of capital withdrawal being partnership constitution by nature which could adversely affect the capital structure limiting financial flexibility.

Liquidity position: Adequate

GAEC has adequate liquidity position marked by healthy Net Cash Accruals (NCA) remain vis-à-vis its maturing debt obligations. The NCA stood at Rs.9.40 Cr. in FY2020 as against Rs.4.52 Cr. in FY2019. While its maturing debt obligations have stood at ~Rs.0.10 Cr. annually during the same period. The firm has unencumbered cash and bank balances of Rs.1.39 Cr. as on March 31, 2020. The average utilisation of its fund based facilities stood at ~80 percent while the non-fund based facilities remain 100 percent utilised for the 6 month period ended December 2020 due to extended payment period from its clients. Acuité believes the liquidity is expected to remain healthy in the near to medium term on account of healthy net cash accruals vis-à-vis its maturing debt obligations.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook: Stable

Acuité believes that GAEC will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the firm registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	82.54	77.35
PAT	Rs. Cr.	8.96	4.12
PAT Margin	(%)	10.86	5.33
Total Debt/Tangible Net Worth	Times	0.28	0.32
PBDIT/Interest	Times	10.05	10.33

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>
- Service Sector Entities - <https://www.acuite.in/view-rating-criteria-50.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Oct-2020	Cash Credit	Long Term	5.00	ACUITE BB+ (Downgraded & Indicative)
	Bank Guarantee	Short Term	4.00	ACUITE A4+ (Downgraded & Indicative)
24-Jul-2019	Cash Credit	Long Term	5.00	ACUITE BBB / Stable (Upgraded)
	Bank Guarantee	Short Term	4.00	ACUITE A3+ (Upgraded)
15-May-2018	Cash Credit	Long Term	5.00	ACUITE BB+ / Stable (Assigned)

	Bank Guarantee	Short Term	4.00	ACUITE A4+ (Assigned)
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***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	10.00	Not Applicable	5.00	ACUITE BBB+ / Stable (Upgraded from ACUITE BB+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2 (Upgraded from ACUITE A4+)

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About Acuité Ratings & Research:

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