

September 2, 2013

| Facilities | Amount (Rs. Crores) | Rating |
|--|---------------------|----------------------------|
| Cash Credit | 6.25 | SMERA B+/ Stable/ Assigned |
| Bank Guarantee (Sub Limit: Inland Letter of Credit) | 20.00 (8.00) | SMERA A4/ Assigned |

SMERA has assigned ratings of '**SMERA B+**' (read as **SMERA B plus**) to the Rs.6.25 crores long term facility and '**SMERA A4**' (read as **SMERA A four**) to the Rs.20.00 crores short term facility of Allied Engineering Works Private Limited (AEWPL). The outlook is '**Stable**'. The ratings are primarily constrained by the company's tender based nature of business in a highly competitive and fragmented industry, modest scale of operations, low profitability and working capital intensive nature of operations. The ratings also factor in risks associated with volatility in raw material prices, foreign exchange fluctuations, high dependence on the power sector and high level of contingent liabilities in comparison with net worth. However, the ratings derive support from the company's experienced management and healthy order book position.

AEWPL was established in June 2011 to take over the electrical meters and cable manufacturing business of AEW Infratech Private Limited (holding company) with effect from April 2012. AEWPL has a modest scale of operations with net sales of Rs.39.19 crores in FY2011-12 (refers to financial year, April 01 to March 31). The company's business is highly dependent on growth and reforms in power transmission and distribution (T&D) as well as further investments in power generation capacities. Further, the company's tender based nature of business limits pricing flexibility and leads to revenue uncertainties as reflected in the sharp decline of ~47 per cent in FY2012-13 revenues, which stood at Rs.20.71 crores. Raw material costs account for around 78 per cent of AEWPL's total operating income and imports account for 20 per cent of the raw material purchases. This exposes AEWPL to foreign currency fluctuation risk, which is partially mitigated by the company's exchange earners foreign currency (EEFC) account. AEWPL's profitability is vulnerable to raw material price volatility. However, the company has started including price escalation clause in its recent EPC (engineering, procurement & commissioning) contracts.

AEWPL's operations are working capital intensive on account of high receivables period (of about two to three months) resulting from stretched collections from state electricity boards (SEBs). This is also reflected in the company's high average utilization of working capital limit (at approximately 92 per cent) in the last six months ending May 2013. AEWPL's banker has issued a performance bank guarantee of Rs.20.00 crores (as on March 31, 2013, estimated figures), which is 4.12 times the company's net worth (as on March 31, 2013, estimated figures).

AEWPL has an order book of Rs.120.00 crores as on June 30, 2013, which is likely to be executed over 24 months. This provides healthy revenue visibility for the company. The total orders of Rs.120.00 crores include orders worth Rs.85.00 crores from A2Z Maintenance & Engineering Services Limited (EPC contractor for the Bihar Electricity Board). Mr. R. P. Goel, founder of AEWPL,

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is an Electrical Engineer with more than four decades of experience in the electrical equipment industry while Mr. Ashutosh Goel, Managing Director, has over 10 years of experience in the company.

Outlook: Stable

AEWPL has a stable outlook. SMERA believes that the company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' if the company is able to register a sustained improvement in profitability while maintaining healthy revenue growth and achieving better working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability or deterioration in the company's revenue profile and capital structure. The outlook may also be revised to 'Negative' in case of further stretch in the company's working capital cycle.

About the company

AEWPL was established in 1985 as a proprietorship concern named Allied Engineering Works (Allied), which was engaged in manufacturing of ceiling fans and lighting fittings till 2008-09. From 2009 onwards, the firm manufactured electronic energy meters and cables used by state electricity boards. In 2009-10, the promoters of Allied established AEW Infratech Private Limited (AEW) and Allied's entire business was transferred to AEW in 2010-11. In FY2011-12, AEW set up a 1,000 kilowatt solar power unit in Bikaner, Rajasthan. AEWPL was incorporated on June 07, 2011 to take over AEW's electrical meters and cables manufacturing business (with effect from April 01, 2012), while the solar power unit remained with AEW.

AEWPL is engaged in manufacturing of electronic energy meters, electric cables and conductors. The company also undertakes EPC contracts. AEWPL caters to public sector undertakings, electricity boards and turnkey contractors. The company is based in New Delhi and is currently managed by Mr. R. P. Goel and his son Mr. Ashutosh Goel.

AEWPL reported profit after tax of Rs.0.32 crores on net sales of Rs.20.71 crores in FY2012-13 (estimates), as compared with profit after tax of Rs.0.36 crores on net sales of Rs.39.19 crores in FY2011-12 (manufacturing division). The company's net worth stood at Rs.4.85 crores as on March 31, 2013 as compared with Rs.1.82 crores as on March 31, 2012.

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