

Press Release

Allied Engineering Works Private Limited

April 25, 2019

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs. 80.00 Cr. (Enhanced from Rs. 23.00 Cr.)
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded from ACUITE B+ /Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 80.00 Cr. bank facilities of Allied Engineering Works Private Limited (AEPL). The outlook is '**Stable**'.

The rating has been upgraded on account of all round improvement in operational and financial parameters of the company. The company has demonstrated healthy growth with a CAGR of 90.77 per cent for last four years ending FY2019. The company has registered revenue of Rs. 110.37 Cr. for FY2018 as against Rs. 42.22 Cr. for FY2017. The working capital of the company has improved in FY2018 over FY2017 marked by working capital days of 162 in FY2018 as against 204 in the previous year. Acuité believes that the company will maintain its financial risk profile and working capital management in near to medium term.

Incorporated in 2011, the company is promoted by Mr. Ashutosh Goel and his mother, Mrs. Bimla Devi Goel. The company is engaged in the manufacture of Electric Meters and Cables. They currently have 4 manufacturing units located in Delhi Industrial Area; equally divided between both products. Their current capacity for Electric Meters is at 3 lakh units per month running and they are currently manufacturing 2 lakh units from the same. They are utilising around 65 percent of the cable manufacturing unit. Almost all of their suppliers are domestic and their customers include corporate clients such as L&T, Ashoka Buildcon, Tata and Vijai Electricals, to name a few. In addition to these, they also do projects for Electricity boards of Madhya Pradesh, Uttarakhand and Punjab.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GOL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations:**

The company is promoted by Mr. Ashutosh Goel, who has been in the company for his entire career which spans for more than 15 years and Mrs. Bimla Goel has been in this business for more than three decades (previously a partnership). Acuité believes that the company will continue to benefit from its experienced management.

- **Improvement in revenues:**

The company has demonstrated healthy revenue scalability which has grown at a CAGR of 90.77 per cent for last four years ending FY2019. The company has registered revenues of Rs.110.37 crore for FY2018 as against Rs.42.22 crore for FY2017. This was primarily due to the increase in production capacities of Electric Meters and Cables. The revenues have increased backed by healthy orders and new geographical reach of the company. Going forward, Acuité believes that the company will maintain its scalability.

- **Improvement in working capital:**

The working capital management of the AEPL has improved in FY2018 over FY2017 backed by improvement in Gross Current Assets (GCA) to 162 days for FY2018 from 204 days for FY2017. The improvement in GCA is mainly dominated by decrease in inventory to 42 days for FY2018 from 59 days for FY2017. Acuite believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses

- **Moderate financial risk profile:**

The financial risk profile of AEPL is moderate marked by moderate net worth, debt protection metrics and leverage ratios. The tangible net worth of AEPL stood at Rs. 9.35 crore as on 31 March, 2018 as against Rs. 6.63 crore as on 31 March, 2017. Gearing (debt-equity) stood moderate at 1.95 times as on 31 March, 2018 as against 1.52 times in the previous year. The total debt of the company as on 31 March, 2018 stood at Rs. 18.24 crore comprises of unsecured loans of Rs. 0.88 crore, working capital limits of Rs. 8.07 crore and term loan outstanding of Rs. 9.29 crore. The coverage indicators stood moderate marked by interest coverage ratio (ICR) of the company at 3.31 times in FY2018 as against 1.65 times in the previous year. The debt service coverage ratio (DSCR) stood at 2.01 times in FY2018 as compared to 1.53 times in FY2017. Total outside liabilities to tangible net worth stood high at 5.82 times as on 31 March, 2018 as against 3.40 times in the previous year. Acuite believes that the financial risk profile of the company will remain moderate in the absence of any major debt funded capex and backed by healthy net cash accruals.

- **Pressure on margins and competition in the industry:**

The raw materials cost comprises ~80 per cent of the cost of sales for the company. If the company is unable to pass on the increase in raw material prices to its customers, profit margins for the company will be negatively impacted. Further, AEPL operates in a highly competitive and fragmented market with limited entry barriers. This results in the presence of large number of players in the unorganised sector, thereby limiting the bargaining power of the company with its customers. Acuite believes that established relations with suppliers will be crucial for the company for procuring its raw material.

Liquidity Position

AEPL has moderate liquidity marked by moderate net cash accruals against its maturing debt obligations. Net cash accruals for the company have improved to Rs. 3.84 crore for FY2018 from Rs. 0.85 crore for FY2017, while the maturing debt obligations were of around Rs. 1.66 crore in FY2019. The cash accruals of the company are estimated to remain around Rs. 6.60 – 10.60 crore during 2019-21, while its repayment obligations are estimated to be around Rs. 1.48 crore every year. The working operations are comfortable marked by gross current asset (GCA) days of 162 in FY2018. The cash credit limit of the company remains utilised at ~90 per cent. The company maintains unencumbered cash and bank balances of Rs. 0.08 crore as on March 31, 2018. The current ratio of the company stands at 1.22 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain moderate over the near to medium term.

Outlook: Stable

Acuite believes that AEPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	110.37	42.22	24.41
EBITDA	Rs. Cr.	6.83	2.34	1.94
PAT	Rs. Cr.	2.69	0.44	0.32
EBITDA Margin	(%)	6.19	5.54	7.96
PAT Margin	(%)	2.44	1.05	1.30
ROCE	(%)	27.32	14.21	23.77
Total Debt/Tangible Net Worth	Times	1.95	1.52	1.44
PBDIT/Interest	Times	3.31	1.65	1.70
Total Debt/PBDIT	Times	2.52	3.79	4.01
Gross Current Assets (Days)	Days	162	204	321

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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>

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
24-Apr-2018	Cash Credit	Long Term	8.00	ACUITE B+ Issuer Not Co-operating*
	Bank Guarantee	Short Term	12.00	ACUITE A4 Issuer Not Co-operating*
	Letter of Credit	Long Term	3.00	ACUITE A4 Issuer Not Co-operating*
02-Mar-2017	Cash Credit	Long Term	8.00	ACUITE B+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	12.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Long Term	3.00	ACUITE A4 (Reaffirmed)
09-Aug-2016	Cash Credit	Long Term	8.00	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	12.00	ACUITE A4 (Assigned)
	Letter of Credit	Long Term	3.00	ACUITE A4 (Assigned)
22-Jan-2016	Cash Credit	Long Term	8.00	ACUITE BB- / Stable (Suspended)
	Bank Guarantee	Short Term	12.00	ACUITE A4 (Suspended)
	Letter of Credit	Long Term	8.00	ACUITE A4 (Suspended)

***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	9.00	ACUITE BB / Stable (Upgraded from ACUITE B+ / Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE A4+ (Upgraded from ACUITE A4)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4+ (Assigned)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB / Stable (Assigned)
Proposed Short Term	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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