RATING RATIONALE

13 May 2020

Electro Meck Industries

Brickwork Ratings upgrade the long term rating and reaffirms the short term rating for the Bank Loan Facilities of 12.75 Crores of Electro Meck Industries

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Mar 2018)	Present
Fund based	1.75	1.75	Long Term	BWR B- (Stable)	BWR B (Stable) Upgraded
	0.50	5.50	Short Term	BWR A4	BWR A4 Reaffirmed
Non Fund Based	3.00	5.50			
Total	5.25	12.75	INR Twelve Crores and Seventy Five Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities is provided in Annexure-I&II

RATING ACTION / OUTLOOK

The rating draws strength from the experience of partners and increased total operating income. The rating, however, is constrained by low profit margins, low net worth, customer concentration risk and risk of tender process in receiving orders.

BWR believes the business risk profile of **Electro Meck Industries** (EMI or the firm) will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term.

KEY RATING DRIVERS

BWR has essentially relied on the audited financials upto FY19, projected financial FY20 and FY21 and information/clarification given by the firm's management.

- **Credit Strengths:**
  Partners have sufficient experience in the industry. Total operating income improved to ₹14.92 Crs in FY19 from ₹2.78 Crs in FY18. Net Profit has been improved to ₹0.14 Crs in FY19 from ₹0.04 Crs in FY18.

- **Credit Risks:**
  Partners' capital stood at ₹3.35 Crs as on 31st Mar 2019. Customer concentration risk as the firm is selling its products only to Tamil Nadu Generation and Distribution Corporation. Order acquisition done through the tender process causes volatility in the top line.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at EMI's rating, BWR has considered its standalone financial and business risk profile.

RATING SENSITIVITIES

Going forward, the firm's ability to improve its scale of operations by sustaining revenue growth, managing working capital efficiency and through the prompt servicing of debt obligation shall remain key rating sensitivities.

Positive: The rating may be upgraded if the firm is able to improve its total operating income and its debt protection metrics.

Negative: The rating may be downgraded if the firm achieves lower revenue than projected financials.

LIQUIDITY POSITION

The current ratio was at 1.23 times as on 31 March 2019. Net cash accruals to total debt stood at 0.02 times as on 31 March 2019. The cash conversion cycle was at 113 days for FY19. Cash and cash equivalents stood at ₹0.26 crore as on 31st March 2019.

FIRM PROFILE

Electro Meck Industries (EMI) was established as a Proprietorship Firm in 1990 by Mr. T. R. K. Sarasuwathi. Later, it was converted to a partnership Firm in 2004. Its registered office is located in Coimbatore, Tamil nadu. EMI manufactures and sells transformers to companies involved in electrical distribution, which in this case, is mostly Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), a subsidiary of Tamilnadu Electricity Board. As informed by the client, now the Firm is solely selling its product to TANGEDCO. The Firm has been in this business for nearly 30 years and has been one of the oldest suppliers of TNEB. Transformers are made as per the specifications given by TANGEDCO. 100 KVA, 220 KVA, 550 KVA are the different types. Orders are awarded through participation in the tender process announced by TANGEDCO on half yearly/yearly basis.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY18	FY19
Result Type		**Audited**	**Audited**
Operating Revenue	In ₹ Crs	2.78	14.92
EBITDA	In ₹ Crs	0.58	1.33
PAT	In ₹ Crs	0.04	0.14
Partners' Capital	In ₹ Crs	3.24	3.35
Total Debt/Partners' Capital	Times	0.94	1.87
Current Ratio	Times	1.31	1.23

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: Nil

RATING HISTORY (Including withdrawal and suspended)

Sr. No.	Name of the Instrument	Facilities		Current Rating		Rating History		
		Type	Tenure	Amount (₹ Cr)	Rating	2019	19.03.2018	11.04.2017
1.	Bank Loan Facility	Fund Based	Long Term	1.75	BWR B (Stable)	-	BWR B- (Stable)	BWR B (Stable)
2.		Fund Based	Short Term	5.50	BWR A4		BWR A4	BWR A4
		Non Fund Based		5.50				
Total				**12.75**	**INR Twelve Crores and Seventy Five Lakhs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

Analytical Contacts	Investor and Media Relations
Dimple Bhut **Primary Analyst** +91 80 4040 9940 Ext: 334 dimple.b@brickworkratings.com **K Nagaraj** **[Assoc. Director– Ratings]** +91 80 4040 9940 Ext: 372 nagaraj.ks@brickworkratings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Canara Bank	Open Cash Credit	1.75	-	1.75
2.		Bills Discount	-	5.50	5.50
3.		Letter of Credit	-	2.50	2.50
4.		Bank Guarantee	-	3.00	3.00
TOTAL					**12.75**

Total INR Twelve Crores and Seventy Five Lakhs Only.

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