March 28, 2024

Goldmedal Electricals Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ short-term – Fund-based facility	30.00	65.00	[ICRA] A+ (Stable)/[ICRA] A1; reaffirmed/ assigned for enhanced amount
Long-term – Fund-based: Channel financing	20.00	100.00	[ICRA] A+ (Stable); reaffirmed/assigned for enhanced amount
Total	**50.00**	**165.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for the bank lines of Goldmedal Electrical Pvt. Ltd. (GEPL) takes into account its strong operational track record in the domestic electricals industry, supported by the extensive experience of its promoters and a robust distribution network across India. The ratings also favourably factor in the diversified product portfolio, with strong presence in electrical switches and increasing sales in the lighting and wires and cables divisions. Further, the company has a strong financial profile, characterised by consistent healthy cash accruals and comfortable coverage indicators. As on March 31, 2023, the company reported a healthy interest coverage of 54.5 times and TD/OPBIDTA of 0.7 times, given limited debt levels, largely related to working capital requirements. The debt coverage numbers in the near term are also expected to be strong, given absence of any large debt-funded capex and healthy operating profit.

The ratings are, however, constrained by the vulnerability of GEPL's margins to raw material fluctuations along with stiff competition from the established and branded players in India. Additionally, the company's revenue and earnings remain susceptible to economic downturns, as well as the demand scenario in its key end-consuming sectors. Moreover, the business remains working capital intensive because of its high inventory holding period and elongated receivable days. ICRA also notes that the company is in midst of large capex programme related to manufacturing unit for switches and fans in Mumbai and for PVC pipes in its wholly-owned subsidiary in Hyderabad. The total outlay for this two capex is expected to be around Rs. 450 crore. The capex is likely to be spread over next two fiscals and the PVC pipes one is expected to be commercialised in Q4 FY2025 and the fans and switches by FY2027. This capex is expected to be largely financed through internal accruals, however there may be addition of debt ~Rs. 100 crore in a phased manner by FY2027, in case of cash flow mismatches. Though this capex provides synergy in terms of product diversification as well as movement to own manufacturing, the same exposes the company to execution as well as market risks. Ability of the company to successfully commercialise this capex in a timely manner, without any time and cost overruns remain critical from credit perspective.

The Stable outlook on the rating reflects ICRA's opinion that GEPL's business profile shall continue to be supported by its long operational track record in the industry, established market position, wide distribution network and strong financial profile.

Key rating drivers and their description

Credit Strengths

Strong track record of operation in the consumer electrical parts industry – The Goldmedal Group has a robust operational track record of over four decades in the electricals industry. The promoter, with extensive industry experience, has fostered strong relationships with dealers, distributors, and vendors, which have enhanced the company's procurement and standing in the market.

Diversified product profile – The company's product portfolio is diversified, including electrical switches, wires and cables, MCB & DBs, lights, and fans, etc. Among these, switches, wires and cables have been integral parts of GEPL's product profile since its inception and have consistently been major revenue contributors. The consumer durable segment has consistently accounted for ~50% of the company's total revenue, while wires and cables have generated 15–18% over the years. Going forward, the company is also looking to venture into new product segments such as water heaters, iron geysers, and PVC pipes. However, the successful introduction of new products and its ability to ramp-up in the market for these remain to be seen.

Pan-India presence with strong distributor network – The company has achieved consistent revenue generation across India, with the southern region being its primary driver, accounting for approximately 40-45% of its total revenues. Moreover, the company has established a robust distribution network encompassing over 8,000 direct and indirect dealers nationwide. Over the years, GEPL has strategically focused on digital transformation. By leveraging its in-house software teams, it has developed its own application for the sales team, dealers, and retailers, facilitating smoother operations. The company's digital presence has played a vital role in maintaining strong relationships with distributors, particularly during the Covid-19 pandemic. This digitalisation initiative has resulted in significant revenue growth and has further solidified the company's financial position.

Strong financial profile – The company has a robust financial profile characterised by consistent revenue growth, healthy profit margins, strong cash accruals, and limited debt-funded capex. As on March 31, 2023, the company had a comfortable gearing ratio of 0.2 times. Moreover, the company reported strong coverage indicators, with an interest coverage ratio of 54.5 times, TD/OPBIDTA of 0.7 times and DSCR of 9.4 times as of end FY2023. Though the profitability moderated in FY2023 over FY2022, due to the inflationary regime, given limited debt levels, the coverage indicators have remained strong. The margin in the current fiscal is expected to remain in the range of 11-12%, coupled with limited debt levels, the coverage numbers are expected to remain strong in the near term.

Credit challenges

Profitability remains vulnerable to raw material prices and economic downturns – The company's primary raw materials, polycarbonate and copper, account for a significant portion of its total cost, ranging from 50-60%. Therefore, any volatility in the prices of these materials can have a considerable impact on the company's profitability, although it takes periodical pricing reviews for its cable and wires segment, since copper is a key raw material here, wherein pass-on of such variations are generally easier. Additionally, GEPL is exposed to economic cycles, as its main end-user industry is real estate, which is highly cyclical. Any downturn in the economic cycle could lead to a decline in demand for the company's products, affecting its overall performance.

Stiff competition from branded as well as unorganised players – The company operates in a competitive industry, facing competition from established branded players such as Anchor Electricals Pvt. Ltd., Legrand, Havells India Ltd. and Polycab India Ltd., as well as numerous unorganised players across its diverse product portfolio. The competitive landscape restricts GEPL's ability to expand its operating margin, especially during periods of inflationary pressure, which can significantly impact its operating profit margins and overall business performance. The same is also reflected in the sharp decline in its operating margins in FY2023 over FY2022, due to rise in input as well as advertisement costs, which were not fully passed on to end-customers.

Working capital-intensive nature of business – The company's operations remain working capital intensive, evident from the net working capital to operating income (NWC/OI) ratio at 24.5% in FY2023. This is primarily attributable to the high holding period for inventory and relatively elongated receivable days.

Exposed to project execution risks - The company is currently in midst of large capex programme related to manufacturing unit for switches and fans in Mumbai and for PVC pipes in its wholly-owned subsidiary in Hyderabad. The total outlay for the two capex is expected to be around Rs. 450 crore. The capex is expected to be largely financed through internal accruals, however there may be addition of debt in the range of ~Rs. 100 crore in a phased manner by FY2027, in case of cash flow mismatches. The capex for PVC pipes is expected to be commercialised in Q4 FY2025 and the capex for fans and switches by FY2027. Though the capex provide synergy in terms of product diversification as well as movement to own manufacturing, the same exposes the company to execution as well as market risks. The ability of GEPL to successfully commercialise this capex in a timely manner, without any time and cost overruns would remain critical from credit perspective.

Liquidity position: Adequate

The company's liquidity position is adequate, given the healthy buffer of ~Rs. 120 core of cushion available in working capital (against sanctioned limits of Rs 200 crore) as on February 29, 2024 against the annual repayment obligation of Rs. 7.4 crore in FY2024. The company is also expected to incur capex of ~Rs. 510 crore in the near to medium term, which is to be largely funded from internal accruals and debt will be limited to any cash flow mismatches. The company has also sold six floors of its upcoming corporate building for ~Rs. 110 crore in the current fiscal, which will also support its liquidity profile in the near term.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a steady and sustained growth in revenue and profitability, leading to an improvement in overall liquidity profile and financial position.

Negative factors – Pressure on the ratings could emerge if there is any significant decline in GEPL's revenues or profitability, leading to a material decline in cash accruals. Additionally, a higher than anticipated capex in the near to medium term, or high than expected borrowing, impacting the coverage indicators or weakening the liquidity profile, will also be a negative rating trigger. Specific credit metrics that could lead to a rating downgrade include TOL/TNW greater than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements, as enlisted in Annexure II.

About the company

In 1979, the first-generation promoter, Shri Otmalji Goraji, entered the electrical industries by establishing a trading venture of electrical products, in Vijayawada, Andhra Pradesh. Subsequently the firm ventured into manufacturing and marketing of wires and cables under the brand name GOLDMEDAL. At present, the company manufactures a vast range of electrical products, including various types of switches, wires, MCBs and DBs, cables, LEDs, fans, and more, for residential buildings as well as commercial establishments. GEPL has a strong distribution network 8,000 direct and indirect dealers across India and operates through its 20-22 branch offices across the country.

Key financial indicators (audited) – Consolidated

GEPL	FY2022	FY2023
Operating income	2292.6	2,421.3
PAT	250.9	186.8
OPBDIT/OI	15.6%	11.5%
PAT/OI	10.9%	7.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	0.4	0.7
Interest coverage (times)	48.8	54.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as of March 31st,2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 28, 2024	June 21, 2023	-	-	-
1 Fund based	Long-term/short-term	65.00	-	**[ICRA] A+ (Stable)/[ICRA] A1**	**[ICRA] A+ (Stable)/[ICRA] A1**	-	-	-
2 Channel financing	Long-term	100.00	-	**[ICRA] A+ (Stable)**	**[ICRA] A+ (Stable)**			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term: Fund Based Facility	Simple
Long Term: Fund Based: Channel Financing	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund Based**	NA	NA	NA	65.00	[ICRA] A+ (Stable)/[ICRA] A1
NA	**Channel Financing**	NA	NA	NA	100.0	[ICRA] A+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

Company Name	Relationship	GEPL Ownership	Consolidation Approach
Goldmedal Electro Private Limited	Subsidiary	100.00%	Full Consolidation

Note: ICRA has taken a consolidated profile of the parent (GEPL), along with its subsidiary while assigning the ratings.

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