

June 21, 2023 ^(Revised)

Goldmedal Electricals Private Limited: [ICRA]A+ (Stable)/[ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund-based Facility	30.00	[ICRA] A+ (Stable)/[ICRA] A1; Assigned
Long-term – Fund-based: Channel Financing	20.00	[ICRA] A+ (Stable); Assigned
Total	50.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to the bank lines of Goldmedal Electrical Pvt. Ltd.'s (GEPL) takes into account its strong operational track record in domestic electricals industry, supported by the extensive experience of its promoters and a robust distribution network across India. The rating also favourably factors in the diversified product portfolio, with strong presence in electrical switches, which has resulted in strong revenue growth with a compound annual growth rate (CAGR) of 22% over the past six fiscal years ending FY2023¹. In FY2023, GEPL reported revenue of Rs. 2,418 crore with net profit of Rs 200 crore. Furthermore, the company has a strong financial profile, characterised by consistent healthy cash accruals and comfortable coverage indicators. As of March 31, 2022, the company reported a healthy interest coverage of 48.8 times and TD/OPBIDTA of 0.4 time, given limited debt levels, largely related to working capital requirements. The debt coverage numbers for FY2023 are also expected to be strong given similar debt level and healthy operating profit. The company has planned capex of around Rs. 500 crore over the next 4-5 years, related to new manufacturing plants, it is expected to be largely financed through internal accruals.

The rating, however, is 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 remains 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.

The Stable outlook on the [ICRA]A+ 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 operations in the domestic electricals industry – 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 has enhanced the company's procurement and standing in the market.

¹ FY2023 financial numbers are provisional/estimated.

Diversified product profile – The company's product portfolio is fairly 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 15–17% 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. Also, 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 of March 31, 2022, the company had a comfortable gearing ratio of 0.2 time. Moreover, the company demonstrates strong coverage indicators, with an interest coverage ratio of 48.8 times, TD/OPBIDTA of 0.4 time and DSCR of 15.4 times as of the end of FY2022. Though the profitability is expected to have moderated in FY2023 over FY2022, due to the inflationary regime, given limited debt levels, the coverage indicators are likely to remain strong in the near term.

Credit challenges

Profitability remains vulnerable to raw material price and economic downturn – The company's primary raw materials, polycarbonate and copper, account for a significant portion of its total cost, ranging from 60-70%. Therefore, any volatility in the prices of these materials can have a considerable impact on the company's profitability, although the company takes periodical pricing action. 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 organised 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, as evidenced by the networking capital to operating income (NWC/OI) ratio exceeding 20% in FY2022. This is primarily attributable to the high holding period for inventory and relatively elongated receivable days.

Liquidity position: Adequate

The company's liquidity position is adequate, given the anticipated growth in earnings from operation and healthy buffer of Rs. 112 crore of cushion available in working capital (against sanctioned limits of Rs 140 crore) as on March 31, 2023 against the annual repayment obligation of ~Rs. 3.4 crore in the FY2024. The company is also expected to incur capex of ~Rs. 500 crore

in the near-term, which is to be funded through internal accruals, leading to limited borrowing levels in the near to medium term, as well as repayments, going forward.

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 entered into the business of electrical industries by establishing a trading venture dealing into electrical products, in Vijayawada, Andhra Pradesh. Subsequently ventured into manufacturing and marketing of wires and cables under the Brand name “GOLDMEDAL.” The company today 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)

GEPL	FY2021	FY2022
Operating income	1579.8	2292.6
PAT	190.8	250.9
OPBDIT/OI	17.3%	15.6%
PAT/OI	12.1%	10.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	0.2	0.4
Interest coverage (times)	36.3	48.8

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31 st , 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				June 21, 2023	-	-	-
1	Fund Based	30.00	-	[ICRA] A+ (Stable)/[ICRA] A1	-	-	-
2	Channel Financing	20.00	-	[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	30.00	[ICRA] A+ (Stable)/[ICRA] A1
NA	Channel Financing	NA	NA	NA	20.0	[ICRA] A+ (Stable)

Source: Company

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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.

Corrigendum

The press release dated June 21, 2023, has been revised to include the provisional/estimated status of the FY2023 financial numbers in the footnote. Additionally, a correction has been made in the Rationale section, where [ICRA] A has been revised to [ICRA] A+ in the 3rd paragraph.

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