

## General Optics (Asia) Limited

July 10, 2020

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	1.89 (enhanced from 0.95)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable; Issuer Not Cooperating (Triple B Plus; Outlook: Stable; Issuer Not Cooperating)
Long/Short-term Bank Facilities	10.00	CARE A-; Stable/ CARE A2 (Single A Minus; Outlook: Stable/ A Two)	Revised from CARE BBB+; Stable/CARE A3+; Issuer Not Cooperating (Triple B Plus; Outlook: Stable/ A Three Plus; Issuer Not Cooperating)
<b>Total</b>	<b>11.89</b> (Rs. Eleven crore and eighty nine lakh only)		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of General Optics (Asia) Limited [GOAL] takes into account the healthy profitability margins albeit marginal drop in FY20 (refers to the period April 1 to March 31), comfortable capital structure and debt coverage indicators. The ratings also factor in established track record of the company in manufacturing industrial-precision optical components, competent in-house research & development activities, and long relationship of the company with its clients. The ratings also factor in the high-entry barrier present in the industry on account of the technology intensiveness associated with it.

The ratings are, however, constrained by GOAL's small size of operations concentrated to few major clients and limited market size of the segment in which GOAL operates.

### Rating Sensitivities:

#### Positive factors:

- Increase in scale of operations.
- Diversification of revenue from customers with not more than 15% from a single customer.

#### Negative factors:

- Deterioration of capital structure with overall gearing above 0.75x.
- Elongation of working capital beyond 180 days.

### Detailed description of key rating drivers

#### Key rating strengths

#### *Longstanding experience of the promoters*

Mr S.Murali, Chairman and Managing Director, has been in the manufacturing business for more than 30 years. He founded the company in 1982 as an export oriented unit. During his tenure, the company transformed itself from a component manufacturer to an Opto Electronic and Opto Mechanical sub-assemblies and Instrument Assemblies Manufacturer. The other directors of the group have also been with the company for over a decade, most of whom have over 30 years of experience.

#### *Reputed client base with long-standing customer relationships albeit client concentration risk*

The company has a reputed client base, most of whom are repeat customers, including Indian Space Research Organization (ISRO), National Atmospheric Research Laboratory (NARL), Department of Space, and Space Applications Center. The company is an accredited supplier to Department of Space (DoS) and has partnered in a variety of indigenization efforts of DoS, Government of India. The company also has a significant export client base including several major OEMs.

Though high concentration of export revenue to select companies cannot be neglected, the underlying long-term relationship enjoyed by GOAL with these clients adds comfort to the continuity of receipt of orders.

#### *Healthy profitability margins albeit marginal drop in FY20*

The commencement of operations of high margin Infra-red segment during FY16 had translated into improvement in PBILDT. The PAT margin improved from 19.08% in FY18 to 28.77% in FY19. The PAT margin for FY20 was 24.29%.

**Comfortable capital structure & coverage indicators**

The overall gearing remained low at 0.07 times (PY: 0.07x) as on March 31, 2019, whereas the overall gearing stood at 0.22x as on March 31, 2020(Provisional). The increase in overall gearing is partially due to increase in total debt and also due to drop in the net worth of the company due to large dividends declared in the year FY20. Albeit the drop in interest coverage ratio from 68.09x in FY19 to 44.46x in FY20, it still remains comfortable. On account of increase in the total debt and also due to drop in gross cash accruals the total debt to gross cash accruals increased from 0.16 year in FY19 to 0.67 year in FY20

**Key rating weaknesses****Small size of operations**

GOAL has a long track record of operations for over 3 decades. However, the size of operations of the company continues to be small with a total income of Rs.39.59 crore in FY19 (Audited) and Rs.28.20 crore in FY20 (Provisional). This is majorly due to the limited market size of segment in which GOAL operates. The company operates in a niche industry selling precision manufactured products after getting the necessary specification from its clients. However, given its small size of its operations, GOAL continues to be exposed to the vastly changing technology, economy downturns and competition from other markets.

**Client concentration risk:**

Though the company enjoys a long-standing relationship with highly reputed export clients, its income continues to be concentrated to a few of them. The top 5 client accounts for 77% of the total income of the company in FY20 and in case of any drop in order flow from these clients the order book drops. The order book as on March 31, 2020 was Rs.18.22 crore as against Rs.13.22 crore as on March 31, 2019.

**Liquidity - Adequate**

The liquidity profile of GOAL remain adequate with surplus gross cash accruals against negligible repayment obligations. The dependence of the company on bank borrowings for its working capital needs has been very low as the requirements were mainly funded by internal accruals and available cash & bank balance. As the raw materials cost for IR products is higher than precision lenses, the average inventory days stood at 76 days in FY20 as compared to 60 days in FY19. The average collection period has also increased to 77 days in FY20 as against 52 days in FY19. This led to increase in the working capital cycle from 90 days in FY19 to 132 days in FY20. While the company has adequate liquidity, the operating cycle has been an elongation and would continue to remain a key monitorable. The company has an unencumbered cash and bank balance of Rs.18.43 crore as on March 31, 2019 (Audited) and Rs.11.50 crore as on March 31, 2020 (Provisional). The company has availed moratorium for its term loan facilities for the period of June 2020 to August 2020.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short term instruments](#)

[CARE's Methodology for manufacturing companies](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity analysis - Non-Financial sector](#)

**About the Company**

GOAL is a closely-held public limited company promoted by Mr S Murali, Chairman-cum-Managing Director. The company was incorporated in 1982 and commenced its commercial operations in 1984 as an EOU producing precision optical components from its manufacturing facility situated at Pondicherry. GOAL is an established player in the manufacture of custom-made industrial precision optical components (such as prisms, flats, windows, wedges, filters, mirrors, beam splitters). GOAL also integrates multiple components and builds intricate and precise mechanical structures/systems to form the sub-assemblies/assemblies.

The company has a total installed capacity to manufacture 2 lakh components in a manufacturing facility of 75,000 sqft. Exports form a major portion of the company's sales and most of its products are exported to global defense organizations and scientific equipment manufacturers. The day-to-day operations of the company are managed by Mr Murali supported by a well-experienced and qualified management team.

(Rs. Crore)

Particulars	FY18(A)	FY19(A)	FY20(P)
Total Operating Income	25.37	39.59	28.20
PBILD	8.09	17.02	10.67
PAT	4.84	11.39	6.85
Overall Gearing Ratio (Times)	0.07	0.07	0.26
Interest Coverage (Times)	20.98	68.09	44.46

A: Audited; P: Provisional

**Status of non-cooperation with previous CRA:** Not Applicable**Any other information:** Not Applicable**Rating History for last three years:** Please refer Annexure-2**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.00	CARE A-; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	May 2024	1.89	CARE A-; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.00	CARE A-; Stable / CARE A2	1)CARE BBB+; Stable / CARE A3+; ISSUER NOT COOPERATING* (08-May-20)	1)CARE A-; Stable / CARE A2+ (02-Apr-19)	-	1)CARE A-; Stable / CARE A2+ (19-Mar-18)
2.	Fund-based - LT-Term Loan	LT	1.89	CARE A-; Stable	1)CARE BBB+; Stable; ISSUER NOT COOPERATING* (08-May-20)	1)CARE A-; Stable (02-Apr-19)	-	1)CARE A-; Stable (19-Mar-18)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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