

August 25, 2014

Facilities	Amount (Rs. Crore)	Ratings
<b>Cash Credit</b>	<b>1.75</b>	<b>SMERA BB+/Stable (downgraded from SMERA BBB-/Stable)</b>
<b>Term Loan</b>	<b>0.52</b>	<b>SMERA BB+/Stable (Assigned)</b>
<b>Bank Guarantee#</b>	<b>2.70</b>	<b>SMERA A4+ (downgraded from SMERA A3)</b>

#Includes letter of credit as a sublimit to the extent of Rs.1.35 crore, which was a separate limit of Rs.3.75 crore at the time of initial rating; total bank guarantee has been reduced from Rs.3.75 crore

SMERA has downgraded the bank loan ratings on the Rs.4.45 crore (reduced from Rs.9.25 crore) bank facilities of Pioneer Furnaces Private Limited (PFPL) to 'SMERA BB+/Stable/SMERA A4+' from 'SMERA BBB-/Stable/SMERA A3'. SMERA has also assigned a long-term rating of 'SMERA BB+/Stable' to the Rs.0.52 crore bank facility of PFPL. The downgrade reflects decline in the company's revenues and profit margins over the past two years. The ratings are constrained by the low return generated on the capital employed by the company. The ratings are also constrained by the company's small-scale operations in an inherently cyclical capital goods industry. However, the ratings derive comfort from the company's long track record of operations and comfortable leverage position.

## Update

PFPL reported profit after tax (PAT) of Rs.0.93 crore on operating income of Rs.10.97 crore in FY2012-13 (refers to financial year, April 01 to March 31), as compared with PAT of Rs.6.39 crore on operating income of Rs.39.82 crore in FY2011-12. Further, the company reported profit after tax of Rs.0.62 crore (provisional) on operating income of Rs.7.32 crore (provisional) in FY2013-14. PFPL's return on capital employed (RoCE) is low at 6.77 per cent (provisional) in FY2013-14.

PFPL's comfortable leverage position is reflected in total debt to tangible net worth (TD/TNW) ratio of 0.01 times as on March 31, 2013.

The company's operations remain susceptible to the inherent cyclical nature in the capital goods industry. PFPL's revenues reduced from Rs.10.97 crore in FY2012-13 to Rs.7.32 crore in FY2013-14 (provisional), a decline of ~33 per cent. Further, the company's operating margin declined from 14.13 per cent in FY2012-13 to 12.16 per cent (provisional) in FY2013-14.

**Outlook: Stable**

SMERA believes PFPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and comfortable financial risk profile. The company's ability to scale up operations on the back of repeat orders remains the key rating sensitivity.

**About the company**

PFPL was established as a partnership firm (named Pioneer Electric Furnace Mfrs.) in 1972. In 1986, Pioneer Electric Furnace Mfrs. was reconstituted as a private limited company (named PFPL) with Mr. Chetan Gosalia and Mr. Nikhil Mehta as directors.

PFPL is engaged in manufacturing of furnaces. The company's product portfolio includes induction melting and holding furnaces and heat treatment furnaces. PFPL mainly caters to metal and auto ancillary industries.

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