



SMERA RATINGS LIMITED

# Pioneer Furnaces Private Limited (PFPL)

*Rating  
Rationale*

**August 25, 2014**

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

*#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 cyclicity 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.

*SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.smera.in](http://www.smera.in)) for the latest information on any instrument rated by SMERA.*



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**Rating**  
**Rationale**

### 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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