Press Release

PENTAGON ASSEMBLY AUTOMATION PRIVATE LIMITED

March 29, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-' (read as SMERA double B minus)** and short term rating of **'SMERA A4' (read as SMERA A four)** on the Rs. 6.00 crore bank facilities of PENTAGON ASSEMBLY AUTOMATION PRIVATE LIMITED. The outlook is **'Stable'**.

Pentagon Assembly Automation Private Limited (PAAPL) was established as a partnership firm in 2000 and later in 2007 converted to a private limited entity. The company is engaged in the manufacture and supply of assembly automation products such as tube cutting machines, leak testing machines and test rings at Pune. It caters to the pharma, auto ancillaries, rubber industries among others.

Key Rating Drivers

Strengths

• **Established track record of operations, experienced management**
PAAPL established in 2000 is led by Mr. Tumbaraguddi and Mr. Radhakrishnan Chinnasamy. The company manufactures and supplies assembly automation products such as tube cutting machines, leak testing machines and test rings. The management has more than a decade of experience in the said line of business.

• **Reputed and diversified customer profile**
Being in the business for more than a decade PAAPL has established relationships with reputed clients including Tata Motors Limited Dr. Reddy's Laboratories Ltd Rivital Healthcare Siemens Ltd etc.

Weaknesses

• **Average financial risk profile**
The financial risk profile of PAAPL is average marked by net worth of Rs. 1.96 crore as on 31 March, 2017 as against Rs.1.56 crores as on 31 March, 2016. The gearing stood at 1.49 times as on 31 March, 2017 as against 1.64 times as on 31 March, 2016. The total debt of Rs. 2.92 crore outstanding as on 31 March, 2017 comprises Rs.2.88 crore of term loan from the bank, Rs.0.04 crore of unsecured loans. The Interest Coverage ratio stood at 3.27 times in FY2017 as against 3.42 times in FY2016. The Debt Service Coverage ratio stood at 2.25 times in FY2017 as against 1.28 times in FY2016. The net cash accruals stood at Rs. 0.72 crore in FY2017 as against Rs. 0.74 crore in FY2016.

• **Working capital intensive operations**
The operations of PAAPL are working capital intensive marked by high GCA days of 196 days in FY2017 as against 94 days in FY2016. This is majorly on account of increase in inventory holding period to 117 days in FY2017 as against 33 days in FY2016. The reason for increase in inventory was due to completion of orders in the current financial year i.e FY2018. The receivable days stood at 25 days in FY2017. The company gets extended credit period from its suppliers of around ~120 days which moderates the working capital limit.

The average bank limit utilisation stood at 54.05 percent for the last six months ended December 2017. SMERA believes that being in the automation industry, the operations of the company will remain working capital intensive.

- **Uneven revenue trend**

PAAPL has shown uneven revenue trend during the period FY2015 to FY2017. The revenues stood at Rs. 18.71 crore in FY2017 as against Rs. 24.54 crore in FY2016 and Rs. 19.88 crore in FY2015. Further, the company booked revenue of Rs.24.19 crore for the period April to January 2018. The uneven revenues are as a result of the long duration (around six months) it takes to fulfill a single order. This spills over into the next financial year.

Analytical Approach

SMERA has considered standalone business and financial risk profile of PAAPL to arrive at the rating.

Outlook: Stable

SMERA believes that PAAPL will maintain a stable outlook on account of its experienced management and diversified product profile. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while achieving healthy profit margins and comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profitability and deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY2017 (Actual)	FY2016 (Actual)	FY2015 (Actual)
Operating Income	Rs. Cr.	18.71	24.54	19.88
EBITDA	Rs. Cr.	1.31	1.37	0.82
PAT	Rs. Cr.	0.40	0.50	0.34
EBITDA Margin	(%)	7.02	5.57	4.14
PAT Margin	(%)	2.16	2.02	1.72
ROCE	(%)	21.97	37.11	64.34
Total Debt/Tangible Net Worth	Times	1.49	1.64	0.77
PBDIT/Interest	Times	3.27	3.42	7.44
Total Debt/PBDIT	Times	2.25	1.28	6.05
Gross Current Assets (Days)	Days	196	94	146

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm
- Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm

Note on complexity levels of the rated instrument

https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instrumentsrated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	0.17	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.14	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.75	SMERA BB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.15	SMERA A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.79	SMERA BB- / Stable

Contacts

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.