**April 27, 2015**

| Facilities | Amount (Rs. Crore) | Ratings |
|---|---|---|
| **Cash Credit (proposed)** | **5.00** | **SMERA B+/Stable (Assigned)** |
| **Working Capital Loan (proposed)** | **10.00** | **SMERA A4 (Assigned)** |

SMERA has assigned a long-term rating of **'SMERA B+' (read as SMERA single B plus)** and a short-term rating of **'SMERA A4' (read as SMERA A four)** to the Rs.15.00 crore proposed bank facilities of Powercraft Electronics Private Limited (PEPL). The ratings are constrained by the company's small-scale operations in a highly competitive segment of the electronics industry. The ratings are also constrained by the company's exposure to customer concentration risk. The ratings factor in risks related to the company's working capital-intensive operations. The ratings note that the company's profit margins are susceptible to volatility in input prices. The aforementioned weaknesses are partially offset by the company's experienced management and moderate financial risk profile.

PEPL, established in 1992, is a Mumbai-based company engaged in manufacturing of hand held machines used for billing and ticketing. PEPL has small-scale operations marked by revenues of Rs.21.62 crore in FY2013–14 (refers to financial year, April 01 to March 31). The company is exposed to customer concentration risk, considering that it derives ~50 per cent of its total revenues from a single customer. PEPL's working capital cycle is stretched at 110 days in FY2013–14 on account of high inventory holding. The company's profit margins are highly susceptible to increase in prices of hardware components and software.

PEPL benefits from its experienced management. Mr. Sanjeev Barve and Mr. Sachin Mahale, directors of PEPL, have around two decades of experience in the electronics industry. PEPL's moderate financial risk profile is marked by gearing (debt-equity ratio) of 1.61 times as on March 31, 2014.

**Rating sensitivity factors**

- Net cash accruals
- Diversification of clientele
- Working capital management
- Ability to adapt to technology changes
- Innovation and product diversification

**Outlook: Stable**

SMERA believes the outlook on PEPL's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues while expanding its existing customer base. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability and profitability, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

**About the company**

PEPL was established as a partnership concern in 1992. The firm was later converted into a private limited company in 1997. PEPL is engaged in manufacturing of hand held machines used for billing and ticketing. The company has a manufacturing unit in Kolhapur, with installed capacity of 60,000 units per annum.

For FY2013–14, PEPL reported profit after tax (PAT) of Rs.1.07 crore on operating income of Rs.21.62 crore, as compared with PAT of Rs.0.30 crore on operating income of Rs.11.70 crore in FY2012–13. PEPL's net worth stood at Rs.3.75 crore as on March 31, 2014, as compared with Rs.2.35 crore a year earlier.


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