

Press Release

Zenith Engineering Corporation

June 14, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 11.20 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB**' (**read as SMERA BB**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 11.20 crore bank facilities of Zenith Engineering Corporation. The outlook is '**Stable**'.

Zenith Engineering Corporation (ZEC) is a closely held partnership firm led by Mr. Manish Gyani, Mr. Rakesh Zaveri and Mr. Vikas Chavda and family. The firm, established in 2005 is engaged in the manufacturing of LT electrical control panels and bus ducts at Vasai Road near Mumbai. Production commenced in 2006.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoters**

ZEC was established in 2005 by Mr. Manish S. Gyani, Mr. Rakesh M. Zaveri and Mr. Vikas Chavda. The partners have experience of around 25 years in the electrical equipment industry and are ably supported by a team of qualified personnel.

- **Moderate financial risk profile**

ZEC's moderate financial risk profile is supported by gearing of 0.61 times as on 31 March, 2017 as against 0.63 times as on 31 March, 2016. The same is expected to remain healthy going forward as the firm follows moderate leverage policy. The firm does not have any long term borrowings as on 31 March, 2016. The coverage indicators are comfortable with interest coverage ratio (ICR) of 2.54 times in FY2015-16 as against 3.02 times in FY2014-15. The operating margins improved y-o-y during the last three years. However, the same has been moderate at 6.17 per cent for FY2016, 5.66 per cent for FY2015 and 5.08 per cent for FY2014.

- **Established relationships with reputed suppliers and customers**

ZEC caters to both - electrical contractors and end-users. The clientele includes Sterling Electro Enterprises Private Limited, Grasim Industries Limited, Sterling & Wilson Limited to name a few. ZEC procures raw material - steel sheets, switchgears, painting powder among others from authorised distributors of Siemens, Schneider Electric, L&T and ABB as per customer specifications.

Weaknesses

- **Modest scale of operations with stagnancy in revenue**

The scale of operations is small despite the firm being in business since 2005. ZEC reported operating income of Rs. 31.07 crore in FY2016 as against Rs.30.87 crore in the previous year. As per provisional financials, ZEC reported operating income of Rs. 31.39 crore for FY2017. The moderate order book position stood at Rs.8.46 crore for FY2018.

• **Working capital intensive operations**

The operations of ZEC are working capital intensive evident from the working capital cycle days of 184 for FY2015-16 as against 228 days in FY2014-15. This is mainly on account of increase in debtor days that stood at 123 days in FY2016 as compared to 116 days in FY2015. However, the average cash credit limit utilisation stood at 63.81 per cent for the last six months ended 31 March, 2016.

• **Partnership constitution**

ZEC being a partnership firm is exposed to risks related to capital withdrawal and the same can be seen in FY2016. The networth declined from Rs. 8.73 crore in FY2015 to Rs.8.40 crore in FY2016 owing to withdrawal of capital by the partner.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Zenith Engineering Corporation (ZEC).

Outlook: Stable

SMERA believes that ZEC will maintain a stable outlook over the medium term on the back of its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the firm maintains strong growth in revenues and profit margins while attaining a comfortable capital structure. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, ZEC reported profit after tax (PAT) of Rs.0.85 crore on operating income of Rs.31.07 crore as compared to PAT of Rs.0.83 crore on operating income of Rs. 30.87 crore for FY2014-15.

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Feb-2016	Cash Credit	Long Term	INR 5.2	SMERA BB / Stable
	Letter of Guarantee	Short Term	INR 6	SMERA A4+

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
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Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.20	SMERA BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A4+

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ABOUT SMERA

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