

Paltech Cooling Towers & Equipments Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	9.00	SMERA BB-/Stable (Assigned)
Cash Credit *	4.50	SMERA BB-/Stable (Assigned)
Standby Line of Credit	2.00	SMERA BB-/Stable (Assigned)
Long Term Facilities (Proposed)	0.49	SMERA BB-/Stable (Assigned)
Letter of Credit	1.00	SMERA A4 (Assigned)
Bank Guarantee	6.00	SMERA A4(Assigned)
Bank Guarantee #	5.01	SMERA A4 (Assigned)

*Cash credit facility is sanctioned for Kanti Bijli Utpadan Nigam Limited (KBUNL) project

#Bank Guarantee facility is sanctioned for Kanti Bijli Utpadan Nigam Limited (KBUNL) project

SMERA has assigned ratings of '**SMERA BB-**' (read as **SMERA double B minus**) to the Rs.15.99 crore long term (fund based) and '**SMERA A4**' (read as **SMERA A four**) to the Rs.12.01 crore short term (non-fund based) bank facilities of Paltech Cooling Towers & Equipments Limited (Paltech). The outlook is '**Stable**'. The ratings derive comfort from the experienced management, healthy profitability profile and healthy relations with customers and suppliers. Further, the ratings factor in the wide geographical reach and moderate financial risk profile. However, the aforementioned strengths are partially offset by the company's small scale of operations and intense competition in the cooling tower industry. SMERA also notes the company's stretched liquidity profile and working capital intensive operations.

Paltech, manufactures cooling towers, water treatment systems and chilling plants for government and non-government organisations. The company benefits from its experienced management. Mr. HP Yadav, the Managing Director and CEO has over three decades of experience in the said line of business. Further, the company also has healthy relations with customers and suppliers.

Paltech has healthy earning profile evident from the operating margins of 17.95 per cent and net margin of 3.40 per cent (provisional) for FY2015-16 against 18.17 per cent and 2.70 per cent, respectively in FY2014-15 (refer to financial year, April 1 to March 31).

Paltech's moderate financial risk profile is marked by leverage (debt-to-equity ratio) of 1.10 times (provisional) in FY2015-16 against 1.31 times in FY2014-15 and moderate interest coverage ratio of 1.56 times (provisional) in FY2015-16 against 1.48 times in FY2014-15 (refers to financial year, April 01 to March 31). The net cash accruals to total debt (NCA/TD) stood at 0.08 times (provisional) in FY2015-16 against 0.07 times during the previous year. The company has interest bearing unsecured loans from promoters, friends and relatives worth Rs.4.45 crore (provisional) in FY2015-16 that is subordinated to bank debt. SMERA has treated such unsecured loans as quasi-equity.

Paltech has executed several cooling tower projects across the country. The company has marketing offices at Mumbai (Maharashtra), Kolkata (West Bengal), Chennai (Tamil Nadu), Ludhiana (Punjab) to name a few.

Paltech's has modest scale of operations evident from operating income of Rs.35.54 crore (provisional) in FY2015-16 against Rs.31.31 crore in FY2014-15. Besides, the company faces intense competition in the cooling tower industry.

The operations are working capital intensive evident from the gross current assets (GCA) of 507 days (provisional) in FY2015-16 against 523 days during the previous year. The high GCA days emanate from the inventory holding and collection period of 302 days and 135 days (provisional) respectively in FY2015-16 in contrast to 342 days and 127 days respectively during the previous year. This resulted in stretched liquidity evident from the limited cushion of Rs.0.40-0.50 crore in fund based working capital limits of Rs.15.50 crore. SMERA believes that over the medium term, the operations will continue to remain capital intensive considering that the company deals with government organisations. The inventory holding period is nine to 10 months due to multiple projects going on during the year.

Outlook- Stable

SMERA believes that Paltech will maintain a stable outlook and benefit over the medium term from its established track record and extensive experience of the management. The outlook may be revised to 'Positive' if the company reports sustained improvement in revenue and profitability profile, working capital cycle or higher than expected cash accruals. Conversely, the outlook may be revised to 'Negative' if Paltech registers decline in revenue and profitability or deterioration in the capital structure due to elongation of working capital cycle. Also, any large debt funded capital expansion undertaken by the company may also entail a 'Negative' outlook.

Rating Sensitivity Factors

- Efficient working capital management
- Substantial and sustainable improvement in revenue and profitability profile
- Debt funded capital expansion

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

The Haryana-based Paltech was incorporated in 1986 by Mr H P Yadav. The company manufactures cooling towers, water treatment systems and chilling plants for government and non-government players in the domestic and overseas markets. The company has three manufacturing units in Mewat district, Haryana. Paltech is a member of the Cooling Technology Institute (CTI), USA and is ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certified.

For FY2014-15, the company reported profit after tax (PAT) of Rs.0.85 crore on operating income of Rs.31.31 crore, as compared with profit after tax (PAT) of Rs.1.06 crore on operating income of Rs.36.09 crore in FY2013-14. As per 12 months' provisional financials for FY2015-16, the company booked PAT of Rs.1.21 crore on operating income of Rs.35.54 crore. The net worth stood at Rs.20.91 crore (provisional) in FY2015-16 against Rs.17.81 crore a year earlier.

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ABOUT SMERA

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