

Press Release

PHI Audiocom Systems Private Limited

February 14, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.6.75Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.6.75 crore bank facilities of PHI AUDIOCOM SYSTEMS PRIVATE LIMITED (PASPL). The outlook is '**Stable**'.

The Pune-based, PHI Audiocom Systems Private Limited was incorporated in 2001 by Mr. Chandrashekhar Narayan Bhav, Mrs. Vidya Chandrashekhar Bhav and Mr. Shashikant Mukund Kulkarni. The company is engaged in assembling of audio communication equipment, providing designing solutions, and executing turnkey projects for Industrial & Naval On-Board Communication Systems.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the PASPL to arrive at this rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

PASPL is operational since 2001. The promoters, Mr. Chandrashekhar Bhav, Mrs. Vidya Bhav and Mr. Shashikant Kulkarni, have almost two decades of experience in the communication equipment industry. PASPL's established track record in the industry has enabled the company in establishing healthy relations with reputed clientele such as, Siemens, Indian Navy L&T, and BHEL, among others.

Acuite believes that PASPL will continue to benefit from promoters' extensive experience over the medium term.

• Moderate financial risk profile

The company has moderate financial risk profile marked by tangible net worth of Rs.9.78 crore as on 31 March 2019 as against Rs.9.51 crore as on 31 March 2018. The gearing stood at 0.04 times as on 31 March 2019 as against 0.09 times as on 31 March 2018. The debt of Rs.0.42 crore consists of working capital borrowings of Rs.0.02 crore and unsecured loans from promoters of Rs.0.40 crore. Interest Coverage Ratio (ICR) stood at 4.28 times in FY2019 as against 7.00 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.22 times as on 31 March 2019 as against 0.68 times as on 31 March 2018.

Weaknesses

• Working capital intensive operations

Despite of improvement, the working capital cycle is intensive marked by GCA days of 261 days in FY2019 as against 301 days in FY2018. This is mainly dominated by stock holding period as well as debtor days. The stock holding period and debtor days stood at 119 and 137 for FY2019 as against 73 and 230 days for FY2018, respectively. However, PHIAS's creditor days stood at 42 days for FY2019 as against 117 days in FY2018. Going ahead, the ability of the company to manage its working capital requirements will remain the key rating sensitivity.

• Modest scale of operations coupled with competitive industry

PASPL has modest scale of operations marked by revenues of Rs.9.07 crore in FY2019 as against Rs.16.86 crore in FY2018 and Rs.17.34 crore in FY2017. Further, PASPL operates in a highly competitive industry characterised by large number of unorganised players mainly on account of low entry barriers. This can have an impact on the profitability margins of the company.

Liquidity position: Stretched

The company has stretched liquidity profile marked by gross current asset (GCA) days of 261 in FY2019 as against 301 days in FY2018. This is on the account of high receivable days as, company majorly caters to government clients. PASPL generated cash accruals of Rs.0.57-0.94 crore during the last two years through FY2019. The cash accruals of the company are estimated to remain around Rs.0.40-0.42 crore during 2020-22, while there are no debt obligation. The company maintains unencumbered cash and bank balances of Rs.0.24 crore as on 31 March, 2019. The current ratio stands at 5.17 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term.

Rating Sensitivity

- Elongation in working capital cycle leading to deterioration in debt protection indicators.
- Substantial improvement in scale of operation and profitability margins over the medium term.

Material covenants

None

Outlook: Stable

Acuite believes that PASPL will maintain a 'Stable' outlook on account of its experienced management and moderate debt protection metrics. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals as a result of sharp decline in operating margins or elongated working capital cycle, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	9.07	16.86
PAT	Rs. Cr.	0.28	0.65
PAT Margin	(%)	3.05	3.85
Total Debt/Tangible Net Worth	Times	0.04	0.09
PBDIT/Interest	Times	4.28	7.00

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

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Mar-2019	Proposed Bank Facility	Long Term	0.55	ACUITE BB- / Stable (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE BB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.20	ACUITE A4 (Reaffirmed)
31-Jan-2018	Cash Credit	Long Term	1.00	ACUITE BB- / Stable (Reaffirmed)
	Bill Discounting	Long Term	0.50	ACUITE BB- / Stable (Withdrawn)
	Bank Guarantee	Short Term	5.20	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.55	ACUITE BB- / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.75 (Revised from Rs.1.00 Crore)	ACUITE BB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00 (Enhanced from Rs.5.20 Crore)	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Simranjeet Kaur Rating Analyst Tel: 022-49294052 simranjeet.kaur@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.