

Press Release

Pollutech Engineering (PE)

April 25, 2017

Rating Upgraded

Total Bank Facilities Rated *	Rs 20.00. Crore
Long Term Rating	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Short Term Rating	SMERA A3 (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long term rating on the Rs.18 crore long term bank facilities to **‘SMERA BBB-’ (read as SMERA triple B minus)** from ‘SMERA BB+’ (read as SMERA double B plus) and assigned short term rating of **‘SMERA A3’ (read as SMERA A three)** on the Rs 2 crore short term facility of Pollutech Engineering (PE). The outlook is **‘Stable’**.

Pollutech Engineering (PE) was established in 1995 by Mr. Dilip Kumar Tripathi. In 2003, the firm entered into an agreement with Volvo India Private Limited (Volvo) for distribution of earthmoving equipments. The firm also undertakes sales of spares and servicing of construction equipments.

List of key rating drivers and their detailed description

Strengths:

Experienced management and long track record of operations - The partner has more than two decades of experience in the trading of construction, mining, heavy earth moving and infrastructure equipments. PE was converted into a partnership business in 2005.

Established regional presence and established relationship with Volvo-The firm has established presence in Orissa with six branches cum workshops and 19 onsite service points. In 2003, the firm entered into an agreement with Volvo India Private Limited – construction equipment division for distribution of Volvo construction equipments in Orissa and is the sole dealer.

Stable growth in revenue - The firm registered stable growth in revenue of Rs 71.80 cr in FY2016 from Rs 28.81 cr in FY2011 registering CAGR of ~20 per cent during the last five years. Also for the 9 months ended December 2017, the firm registered revenue of Rs 92 cr (provisional).

Healthy financial risk profile -_The healthy financial risk profile is marked by comfortable net worth of Rs.18.91 crore, comfortable gearing of 0.66 times and interest coverage ratio of 1.92 times as on 31 March, 2016.

Weaknesses:

Economic cyclical - PE is exposed to the economic cyclical and changing government restrictions- an inherent risk associated with the mining industry.

Working capital intensive business - PE's operations are working capital intensive marked by gross current asset days of 130 in FY2016 as against 213 days in FY2015. This necessitates working capital requirements as major funds gets blocked in inventory and debtors. The inventory and debtor days stood at 56 and 68 respectively in FY2016. The bank limit utilisation on an average has been 95 per cent.

Intense competition -PE faces intense competition from other OEM dealers in Orissa.

Analytical approach- SMERA has considered the standalone business and financial risk profiles of PE.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook - Stable

SMERA believes that the firm will continue to maintain a stable outlook and benefit over the medium term owing to its established relationship with Volvo India Private Limited and its promoters' extensive experience in the construction and earth moving equipment business. The outlook may be revised to 'Positive' in case of substantial and sustainable increase in revenues and profitability margins. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue, profitability margins, or in the capital structure because of stretch in its working capital cycle or large debt-funded capital expenditure undertaken by the firm.

About the Rated Entity

PE was established in 1995 by Mr. Dilip Kumar Tripathi as a proprietary concern and converted into a partnership firm in 2005. In 2003, the firm entered into an agreement with Volvo India Private Limited (Volvo) for distribution of earthmoving equipments. PE is the sole dealer of Volvo equipments in Orissa with six branches, 19 onsite service points and a workshop at Bhuvaneswar. The firm also undertakes sales of spares and servicing of construction equipments.

For FY2016, PE reported Profit after Tax (PAT) of Rs.0.74 cr on total operating income of Rs.71.80 cr as compared with PAT of Rs.0.44 cr on total operating income of Rs.45.12 cr in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Facilities	FY2017				FY2016		FY2015		FY2014	
	Scale	Date	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	08-Mar-2017	13.00 (Enhanced from Rs 10 cr)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)	15-Dec-2015	SMERA BB+/Stable (Reaffirmed)	06-Jan-2015	SMERA BB+/Stable (Assigned)	-	-
Term Loan	LT	08-Mar-2017	5.00	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)	15-Dec-2015	SMERA BB+/Stable (Reaffirmed)	06-Jan-2015	SMERA BB+/Stable (Assigned)	-	-
Proposed Cash Credit	LT	-	-	-	-	-	06-Jan-2015	SMERA BB+/Stable (Assigned)	-	-
Letter of credit	ST	08-Mar-2017	2.00	SMERA A3 (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	NA	NA	NA	13.00 (Enhanced from Rs 10 cr)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Term Loan	NA	NA	April 2021	5.00	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Letter of credit	NA	NA	NA	2.00	SMERA A3 (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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