

Press Release

Industrial Manufacturers

September 19, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 27.00 crore (Enhanced from Rs. 25.00 Cr.)
Long Term Rating	ACUITE B+/Stable
Short Term Rating	ACUITE A4

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs.25.00 crore bank facilities of Industrial Manufacturers (IM).

Further, Acuité has assigned long term rating of '**ACUITE B+**' (**read as ACUITE B plus**) to the Rs. 2.00 crore bank facilities of Industrial Manufacturers (IM). The outlook is '**Stable**'.

IM, a partnership firm established in 1959 is engaged in the designing, engineering, fabrication, installation and commissioning of process equipments for oil and gas, chemicals, refineries, fertilizer industries. The firm is led by Mr. Ravitej Kapadia, Mr. Rajnikant Mody and their respective families. The fabrication facilities are located at Navi Mumbai (Maharashtra).

Analytical approach:

Acuité has considered the standalone business and financial risk profiles of Industrial Manufacturers to arrive at the rating.

Key rating drivers:

Strengths

Long track record of operations and experienced management:

The firm is promoted by Mr. Kapadia and Mr. Modi along with their family. The firm has been in operations since 1959 (58 years of operations). Currently, both the family members are actively involved in the operations of business and have experience of more than three decades. Long standing presence in the business has helped the firm to establish healthy relationship with its suppliers and reputed customers like Linde Engineering India Private Limited, Indian Oil Corporation Limited, Reliance Industries Limited, Bharat Petroleum Corporation Limited to name a few. Further, the firm has unexecuted order book position of Rs.35.00 crore as on August, 2018.

Moderate financial risk profile:

The financial risk profile of the firm remains moderate marked by tangible net worth of Rs.11.97 crore as on 31 March, 2018 (Provisional) as against Rs.10.80 crore as on 31 March, 2017. The total debt of Rs.5.04 crore mainly consists of short term debt, thus providing a comfortable capital structure with gearing of around 0.42 times as on 31 March, 2018 (Provisional) as against 0.38 times as on 31 March, 2017. TOL/TNW ratio also stood moderate at 0.47 times as on 31 March, 2018 (Provisional) as against 1.06 times as on 31 March, 2017. The net cash accruals stood at Rs.2.17 crore in FY2018 (Provisional) as against negative accruals of Rs.1.24 crore in FY2017.

Acuité believes the financial risk profile of the firm is expected to remain moderate in the absence of any debt funded capital expenditure and no long term debt obligations.

Weaknesses:

Uneven revenue trend and uneven profitability margins:

The firm has reported uneven revenue trend during the period FY2016 to FY2018 under the study. The operating income stood at Rs.21.80 crore in FY2018 (Provisional) as against Rs.7.10 crore in FY2017 and Rs.14.17 crore in FY2016. The reason for revenues to be uneven is on account of tender based nature of business. Also there were fewer orders to be executed in FY2017 and some orders got spill over in FY2018. Further, the firm has registered revenue of Rs.~11 crore for the period April to August, 2018. The firm has order book position of Rs.36.00 crore which gives future visibility of the revenues.

The firm has reported uneven profitability margins during the period FY2016 to FY2018 under the study. The operating profit increased to Rs.2.91 crore in FY2018 (Provisional) as against operating loss of Rs.1.14 crore in FY2017. The firm suffered from net loss in FY2017 of Rs.1.24 crore because of decline in turnover in FY2017. However, as per provisional financials for FY2018, the firm reported net profit of Rs.2.06 crore.

Acuité believes that the ability of the firm to maintain its revenue along with profitability margins will remain key rating sensitivity.

Working capital intensive operations:

The working capital cycle of IM has improved Y-O-Y during FY2016 to FY2018 (Provisional) but still remains intensive. The Gross Current Assets (GCA) improved to 226 days in FY2018 (Provisional) as against 857 days in FY2017. This is majorly on account of significant decline in inventory holding period to 203 days in FY2018 (Provisional) as against 574 days in FY2017 and 187 days in FY2016. The reason for inventory to increase in FY2017 was because of spillover of the orders in FY2018 and FY2017. The receivable days have also improved in FY2018 and the same stood at 30 days in FY2018 (Provisional) as against 136 days in FY2017 on account of better realisation from debtors. The creditors are well managed and range between 30 days. The average bank limit utilisation stood at ~87 percent for the last six months ended August 2018.

Acuité believes that being into capital goods industry the operations of IM are expected to remain working capital intensive.

Capital withdrawal risk:

IM being a partnership firm is exposed to the inherent risk of capital withdrawal, which will have an impact on the credit profile of the firm.

Outlook: Stable

Acuité believes that IM will maintain a 'Stable' outlook over the medium term on account of the experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected revenues and improved profitability. Conversely, the outlook may be revised to negative if there is steep decline in revenues and profitability or deterioration in the financial risk profile owing to higher than expected working capital requirements.

About the rated entity- Key financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	21.80	7.10	14.17
EBITDA	Rs. Cr.	2.91	(1.14)	0.48
PAT	Rs. Cr.	2.06	(1.37)	0.23
EBITDA Margin	(%)	13.36	(16.03)	3.39
PAT Margin	(%)	9.44	(19.32)	1.63
ROCE	(%)	18.82	(5.73)	4.54
Total Debt/Tangible Net Worth	Times	0.42	0.38	0.01
PBDIT/Interest	Times	3.29	(2.03)	1.59
Total Debt/PBDIT	Times	1.62	(4.99)	0.18
Gross Current Assets (Days)	Days	226	857	368

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
06-Jul-2017	Cash Credit	Long term	5.00	ACUITE B+/Stable (Assigned)
	Bank Guarantee	Short term	15.00	ACUITE A4 (Assigned)
	Letter of Credit	Short term	5.00	ACUITE A4 (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	5.00	ACUITE B+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+/Stable (Assigned)

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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.

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