

## Press Release

### Phoenix Structural and Engineering Private Limited

13 December, 2017

#### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 13.29 Cr
<b>Long Term Rating</b>	SMERA B+/Stable
<b>Short Term Rating</b>	SMERA A4

\*Refer Annexure for details

#### Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+** (read as SMERA B plus) and short term rating of '**SMERA A4** (read as SMERA A four) on the Rs. 13.29 crore bank facility of Phoenix Structural and Engineering Private Limited (PSEPL). The outlook is '**Stable**'.

The Nagpur-based PSEPL incorporated in 2007 was promoted by Mr. Patil and family. The company commenced operations in 2011 in the manufacturing, fabrication and galvanisation of transmission towers (steel, power). Led by Mr. Sunil Patil, Mrs. Prema Patil (wife) and their son, Mr. Varun Patil, the company derives around 85 percent revenue from manufacturing and the rest from job work. Steel is procured from domestic steel traders depending on orders. The company generates around 80 percent revenue through subcontracts and the rest through direct bidding. The installed capacity stands at 2,500 tonnes per month. PSEPL also has a group company 'Phoenix Engineer' (PE), a partnership firm established in 1984 by Mrs. Prema Patil and Mr. Sunil Patil. The firm is engaged in the construction of roads and undertakes fabrication contracts.

#### List of key rating drivers and their detailed description

##### Strengths:

##### Experienced promoters

PSEPL benefits from the extensive experience of its promoters - Mr. Sunil Patil and Mr. Varun Sunil Patil who collectively possess more than three decades of experience in the fabrication, galvanising and civil construction industry. The extensive experience has helped the company forge long term relations with customers and suppliers.

##### Reputed clientele

The company caters to a reputed client base including Tata Project Limited, KEC international Limited, Amitasha Enterprises Private Limited, Larsen & Toubro Limited and Siemens Limited. These companies directly bid for tenders floated by power transmission companies and sub-contract to PESPL. The reputed clientele base has helped the company achieve CAGR of around 58 percent during the last four years.

##### Comfortable financial risk profile

The financial risk profile is comfortable with tangible networth of Rs.11.05 crore as on 31 March, 2017 as against Rs. 8.78 crore in the previous year. The gearing stood at 1.04 times as on 31 March, 2017 as against 1.39 times in the previous year. The total debt of Rs.11.46 crore as on 31 March, 2017 includes long term borrowings of Rs. 0.39 crore and short term borrowings of Rs. 10.09 crore. The interest coverage ratio (ICR) stood at 2.30 times and debt service coverage ratio at 1.38 times for FY2017. The total liabilities to tangible networth (TOL/TNW) stood at 1.82 times as on 31 March, 2017. The net cash accruals to total debt (NCA/TD) stood at 0.19 times as on 31 March, 2017. SMERA believes that the financial risk profile will remain comfortable in the near to medium term in the absence of major debt funded capex plan.

## Weaknesses

### Modest scale of operations in a highly competitive and fragmented industry

The scale of operations is modest with operating income of Rs. 36.80 crore for FY2017 as against Rs. 21.53 crore in the previous year. Further, the company operates in a highly fragmented and competitive electrical equipment industry.

### Working capital intensive operations

The operations are working capital intensive evident from the gross current asset days (GCA) of 207 for FY2017 as against 265 days in the previous year. The high GCA days are on account of high raw material inventory and work-in-progress maintained by the company of 135 days for FY2017 as against 195 days in the previous year. The projects require around 30 to 60 days for completion. The gross current asset days improved from 300 days in FY2015 to 207 days in FY2017. Further, the liquidity position of the company is stretched as the cash credit limit was fully utilised during the last six months ended 31 August, 2017.

### High dependence on power sector reforms and government orders

PESPL is highly dependent on the power sector which contributes around 90 percent to PESPL's revenue. The power sector in turn is dependent on the reforms in the power Transmission and Distribution (T&D) sector and investments lined up to bridge the demand-supply gap. Hence, adverse changes in reforms or slowdown in investments can impact performance of companies including PESPL.

**Analytical approach:** SMERA has considered the standalone business and financial risk profile of the company for arriving at the rating.

## Applicable Criteria

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

## Outlook: Stable

SMERA believes that PSEPL will maintain a Stable outlook over the medium term on account of its experienced promoters in the fabrication, galvanising and civil construction industry. The outlook may be revised to 'Positive' if the company registers significant growth in revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' if the liquidity profile or financial risk profile of the company deteriorates owing to higher than envisaged working capital borrowings.

## About the Rated Entity –Key Financials

For FY2016-17, PSEPL reported profit after tax (PAT) of Rs. 0.80 crore on operating income of Rs.36.80 crore as compared with PAT of Rs. 0.50 crore on operating income of Rs. 21.53 crore for FY2015-16. The net worth stood at Rs. 11.05 crore as on 31 March, 2017 as against Rs.8.78 crore in the previous year.

**Status of non-cooperation with previous CRA (if applicable):** ICRA, wide release dated June 30, 2016 has suspended the ratings of PESPL on account of lack of adequate information required for monitoring of ratings.

**Any other information:** Not Applicable

**Rating History for the last three years:** Not applicable

**\*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	N.A	N.A	N.A	9.00*	SMERA B+/Stable (Assigned)
Term Loan	N.A	N.A	N.A	0.90	SMERA B+/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A	0.50	SMERA A4 (Assigned)
Proposed Long Term Facility	N.A	N.A	N.A	2.89	SMERA B+/Stable (Assigned)

\*Includes sublimit of letter of credit upto Rs. 5.55 crore

**Note on complexity levels of the rated instrument:**

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

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## ABOUT SMERA

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