

Press Release

Pace Electricals Private Limited

May 14, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 13.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 13.50 crore bank facilities of PACE ELECTRICALS PRIVATE LIMITED (PEPL). The outlook is '**Stable**'.

The rating continues to reflect the steady increase in revenues and promoters extensive experience in the industry reflected by reputed clientele. The strengths are partially offset by low net worth resulting in weak financial risk profile and elongated working capital cycle.

Incorporated in 2005, PEPL is a Bangalore based company promoted by Mr. M.J. Harish. The company undertakes high tension / low tension electrical projects, installation of DG systems, Fire Detection Alarm System (FDA) and CCTV. The company is an approved A-Grade license holder from the Chief Electrical Inspector of the Govt. of Karnataka.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PEPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

Incorporated in 2005, PEPL has a track record of over a decade for undertaking turnkey electrical contracts. The company was promoted by Mr. MJ Harish who has over two decades of experience in the same line of business since his association with group entities, namely, Pace Switchgear Private Limited and Pace Communications.

- Reputed clientele**

The company has a reputed client base where it has executed orders for Flipkart Internet Private Limited, Vodafone Idea Limited, ABB India Limited, Bharti Airtel Limited, and Metro Cash & Carry India Private Limited to name a few. Over the years, PEPL has executed orders and obtained repeat orders from these reputed customers.

- Steady increase in revenue profile and healthy order book**

PEPL's operating revenue is moderate but has steadily increased from Rs. 22.97 crore in FY2016 to Rs. 39.40 crore in FY2018. The company has further achieved operating revenue of Rs 33.77 Crore during April 2018- January, 2019. PEPL caters to reputed clients including Flipkart Internet Private Limited, Vodafone Idea Limited and All Cargo Logistics Private Limited. PEPL has an order book of Rs.25.56 crore as on 30 April, 2019 to be executed by the end of Q2 2019, providing revenue visibility. The profitability remained modest at 4.13 percent in FY2018 as against 3.78 percent in the previous year.

Weaknesses

- **Working capital intensive operations**

The working capital operations remained intensive with gross current assets (GCA) increasing from 155 days in FY2017 to 191 days in FY2018. The GCA days were dominated by debtors of 132 days in FY2018 as against 78 days in FY2017. Significant increase in debtor days was on account of delay in payment realisation. Going forward, the company ability to realise payment in a timely manner will remain a key concern monitorable.

- **Weak financial risk profile**

PEPL's financial risk profile is weak marked by low net worth, high gearing and comfortable debt protection metrics. The net worth stood at Rs.2.31 crore as on 31 March, 2018 as against Rs.1.78 crore as on 31 March, 2017. The gearing stood at 3.01 times as on 31 March, 2018 compared to 2.02 times as on 31 March, 2017. The sharp increase in gearing was due to higher working capital utilization. The debt protection metrics remained moderate with interest coverage ratio at 2.35 times in FY2018 as against 1.77 times in FY2017. The debt service coverage ratio remained modest at 1.97 times as on March 31, 2018 as against 1.63 times in the previous year.

Liquidity Profile

PEPL has stretched liquidity position .The cash credit limit remains fully utilised during the last 6 months period ended February, 2019. PEPL's bank limits have been enhanced and the same is expected to marginally improve the liquidity position. The current ratio of the company stands low at 1.02 times as on March 31, 2018.

Outlook: Stable

Acuité believes that the outlook on PEPL will remain 'Stable' over the medium term on account of the extensive experience of promoter and established track record. The outlook may be revised to 'Positive' in case of higher than expected increase in scale of operations and profitability, and improvement in the working capital cycle. The outlook may be revised to 'Negative' in case the company fails to achieve envisaged scale of operations or deterioration in the profitability or any further elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	39.40	25.77	22.97
EBITDA	Rs. Cr.	1.63	0.97	1.04
PAT	Rs. Cr.	0.53	0.17	0.15
EBITDA Margin	(%)	4.13	3.78	4.54
PAT Margin	(%)	1.34	0.68	0.67
ROCE	(%)	20.09	12.25	12.27
Total Debt/Tangible Net Worth	Times	3.01	2.02	3.10
PBDIT/Interest	Times	2.35	1.77	1.77
Total Debt/PBDIT	Times	4.06	3.54	4.43
Gross Current Assets (Days)	Days	191	155	178

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.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
17-Mar-2018	Cash Credit	Long Term	6.00	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50 (Enhanced from Rs 6.00 Crore)	ACUITE BB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00 (Enhanced from Rs 4.00 Crore)	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Swati Banthia Analyst - Rating Operations Tel: 033-66201211 swati.banthia@acuiteratings.in	

About Acuité Ratings & Research:

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