

Press Release

Pace Electricals Private Limited

May 15, 2020



Rating Downgraded

Total Bank Facilities Rated*	Rs.13.50 Cr.
Long Term Rating	ACUITE B+/Stable (Downgraded)
Short Term Rating	ACUITE A4 (Downgraded)

* Refer Annexure for details

Rating Rationale

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

Reason for Downgrade:

The rating downgrade factors the continued high utilization of the working capital facilities. The working capital cycle is elongated in view of the increase in the GCA days which stood at 192 days in FY2019. The rating also factors in the stretch in the receivable and payable days which is majorly due to receivables from customers and subsequent payments to be made to the suppliers under a back-to-back payment mechanism. Moreover, the rating has been constrained on the grounds of declining profitability. Acuité believes that any decline in the scale of operations and profitability and further increase in working capital cycle will be a key rating sensitivity factor.

Bangalore-based, PEPL was incorporated in 2005 by Mr. H.J. Harish and Mrs. Suma Harish. The company operates in Bangalore, Chennai, Delhi, Lucknow and Hyderabad. The company is a turnkey electrical contractor for medium and large industrial as well as commercial establishments. The company undertakes high tension / low tension electrical projects, installation of DG systems, Fire Detection Alarm System (FDA), CCTV & P.A. Systems. The company is an approved A-Grade license holder from the Chief Electrical Inspector of the Govt. of Karnataka.

Analytical Approach

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

Key Rating Drivers

Strengths

- Long track record of operations and experienced promoter**

PEPL is in the said line of business since 2005. The director's viz Mr. H.J. Harish and Mrs. Suma Harish have two decades of experience in the said line of business. The extensive experience coupled with long track record of operations has enabled the company forge healthy relationships with customers and suppliers. The company has a reputed client base where it has executed orders for Walmart, Flipkart Internet Private Limited, Vodafone Idea Limited, Bharti Airtel Limited, and All Cargo Logistics Limited to name a few. Over the years, PEPL has executed orders and obtained repeat orders from these reputed customers. The Company has shown growth in revenues, however modest, by registering Rs.47 Cr in FY2019 against Rs.39 Cr in FY2018. The Company for FY2020 (Prov) has completed orders worth Rs.52 Cr. Acuité believes that the company will continue to benefit from its established presence in the aforementioned industry and the directors demonstrated ability to scale up the operations across various cycles.

Weaknesses

- **Working capital intensive operations**

PEPL's operations are working capital-intensive as evident from gross current asset days of 192 days in FY2019 as against 191 days in FY2018. The company allows credit period to customers for about 45 days which however stood at 110 days in FY2019. Receivables from L&T are a major portion of the outstanding debtors. The inventory days are at 45 days in FY2019 as against 19 days in FY2018. The high inventory days reflect work-in-progress at the site. The creditor days were recorded at 135 days for FY2019 as against 112 days in FY2018. The creditors are stretched due to a back-to-back payment mechanism followed by the management. Working capital intensive operations have led to full utilization of its bank lines through eleven months ending February, 2020. Acuité believes that the working capital operations are expected to remain high with respect to the debtor cycle and which will remain a key rating sensitivity.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate marked by moderate gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protection metrics. Gearing is moderate at 2.60 times as on 31 March, 2019 as against 3.01 times as on 31 March, 2018. TOL/TNW is at 9.75 times as on 31 March, 2019 as against 8.95 times as on 31 March, 2018. Net worth of the company is Rs.2.66 Cr as on 31 March, 2019 as against Rs.2.31 Cr as on 31 March, 2018. Of the total debt of 6.90 Cr as on 31 March, 2019, long-term debt stood at Rs.0.23 Cr and short-term debt stood at Rs.6.67 Cr. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are at 2.05 times and 0.08 times respectively in FY2019. Acuité believes that the financial risk profile is expected to remain moderate on account of modest net worth and moderate debt- protection metrics for the medium term.

Rating Sensitivities

- Improvement in the scale of operations with improvement in its operating income.
- Stretch in its working capital management leading to deterioration in liquidity.

Material Covenants

None

Liquidity: Stretched

Liquidity of PEPL is stretched marked by high bank limits utilization through eleven months ending February 2020. The working capital operations of the company are intensive marked by gross current asset (GCA) days of 192 days in FY2019. Working capital intensive operations led to full utilization of its bank lines through eleven months of FY2020. The company reported cash accruals of Rs.0.58 Cr against nil repayment obligations, further expected cash accruals are in the range of Rs.1.00 Cr to Rs.1.50 Cr against nil repayment obligations over the medium term. The company maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2019. The current ratio stands at 1.01 times as on 31st March, 2019. Acuité believes that the liquidity profile continues to be stretched marked by working capital intensive operations and high bank limit utilization.

Outlook: Stable

Acuité believes that PEPL will maintain 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' if the company registers higher than expected growth in revenues while maintaining stable profitability. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	47.09	39.40
PAT	Rs. Cr.	0.34	0.53
PAT Margin	(%)	0.71	1.34
Total Debt/Tangible Net Worth	Times	2.60	3.01
PBDIT/Interest	Times	2.05	2.35

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-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto three years)

Date	Name of Instrument/ Facility	Term	Amount (Rs. Cr)	Ratings/Outlook
14-May-2019	Overdraft	Long Term	7.50	ACUITE BB- /Stable (Reaffirmed)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Reaffirmed)
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	ACUITE B+ /Stable (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Downgraded)

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About Acuité Ratings & Research:

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