



Press Release

PCM Cement Concrete Private Limited

19 March, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 130.13 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as SMERA triple B minus) and short term rating of '**SMERA A3**' (read as SMERA A three) on the Rs. 130.13 crore bank facilities of PCM Cement Concrete Private Limited (PCCPL). The outlook is 'Stable'.

Incorporated in 1991, PCCPL is a Siliguri (West Bengal) based company engaged in manufacturing of railway sleeper. The company is also engaged in flash butt welding, media and real estate. The company is a part of the PCM group which has diversified business interest in tea processing, power trading and real estate. In 2013, PCCPL acquired Rail One AG. a German company engaged in manufacturing of concrete railway sleepers having global presence in the markets of Europe, USA and gulf countries. The company is managed by the Mittal family headed by Mr. Kamal Kumar Mittal having industry experience of more than three decades.

About the Group

PCM group promoted by Late Padam Chand Mittal has diversified business interest. The group has presence in manufacturing of concrete railway sleepers, flash butt welding, real estate, tea, media etc. In 1991, the group has ventured in manufacturing of railway sleepers and flash butt welding through PCCPL. Over the years, the group has promoted PCM Stresscon Overseas Ventures Limited for manufacturing of pre-stressed concrete sleepers in the international market with plants in Saudi Arabia, UAE and India. PCM Tea Processing Private Limited was incorporated in 1999 is engaged in the processing of black tea. In 2013, PCCPL acquired Rail One AG. a German company engaged in manufacturing of concrete railway sleepers having global presence in the markets of Germany, Hungary, Romania, Spain, Turkey, South Korea, USA and Saudi Arabia. Since acquisition in 2013, the group is deriving majority of its revenue from PCM rail One AG. In 2017 the group derived ~ 86 per cent of its revenue from PCM Rail One AG as compare to 87 per cent in FY 16.

Analytical Approach

The team has taken a consolidated view of PCCPL with PCM Rail one AG, PCM Stresscon Overseas Ventures Limited, PCM Tea Processing Private Limited, PCM Hydel Power Corporation Limited, DDM Alloys Casting Private Limited, PCM Cement Concrete Private FZE, PCM Stresscon International Private Limited, PCM Power Trading Private Limited, Railtrack Equipment, Services Private Limited, PCMS Infrastructure Company Private Limited, Rail Track Concrete Products Private Limited, Sathi Builders Private Limited PCMCCPL & Cabcon India Private Limited thereby including 6 subsidiaries, 7 associates and a JV while assigning the ratings. The consolidation has been on account of common promoters, similar line of operations and cross guarantees.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

PCM group has a long track record of more than two decades in manufacturing of sleepers and flash butt welding. The group was promoted by Mr. Kamal Kumar Mittal who has over two decades of experience in the same line of business. Currently, the business is managed by the Mittal family with the second and third generation actively involved in the business.

Geographically diversified operations and healthy scale

The PCM group has presence across geographies for railway sleepers such as Germany, Romania, Saudi Arabia, Spain, Turkey, Hungary, USA to name a few and derives around 86 per cent of revenues from these markets. PCM Rail One AG enjoys a dominant position in Germany as well as entire Europe. Besides, the group is also present in the domestic market through PCM Cement and enjoys a comfortable position in the North East in the sleeper segment. SMERA believes that the group's presence across the globe will continue to support its business profile and enhance its market share.

The established presence after acquiring of Rail One AG in 2013 has resulted in healthy scale of operation. During FY 17 the group has registered revenue of Rs 1052.78 crs as compared to Rs 1188.05 crs in FY 16. The majority of the revenue of the group is from PCM Rail One AG which constitutes ~ 86 per cent in FY 17 as compare to 87 per cent in FY 16.

Healthy financial risk profile

The healthy financial risk profile of the group is marked by its robust net worth, comfortable gearing and debt protection metrics. The net worth of the group stood at Rs 498.97 crore in FY2017 as against Rs 498.12 crs in FY 2016. Gearing stood comfortable at 0.41 times in FY 17 as compare to 0.46 times in FY 16. Total debt of Rs 206.16 crore in FY 2017 consist of long term loan (SBLC) of Rs 109.46 crore, CPLTD of Rs 40.40 crs, Rs 56.49 crs of working capital facilities. The interest coverage ratio and DSCR stood comfortable at 3.76 times and 1.18 times in FY 2017 as compared to 6.13 times and 2.04 times respectively in FY 2016. The NCA /TD stood at 0.25 times in FY 2017 as compare to 0.47times in FY 2016.

Healthy order book position

The group has a healthy order book position of Rs 32 crs for flash butt welding under PCM Cement Concrete Pvt Ltd. For concrete sleepers PCM Cement Concrete Pvt Ltd has orders of Rs 32.30 crs in hand to be executed. PCM Rail one AG has orders of ~ Rs 800 crs for concrete sleepers in European countries, USA and Middle East.

Weaknesses

Decline in profitability metrics

The profitability of the PCM group has deteriorated during the last two years. In FY 17, the operating margins declined to 5.82 per cent from 9.82 per cent in FY 16. The net profit margins declined in FY 17 to 0.92 per cent from 5.06 per cent in FY 16. The decline in profitability is on account of performance in PCM Rail One AG where operating margins has declined to 7.07 per cent in FY 17 from 9.70 per cent in FY 16. The decline in profitability margins were on account of high employee cost which increased to 21.38 per cent as a percentage of revenue in FY 17 from 18.34 per cent in FY 16. The increase in the personnel expenses as compared with the previous year is due to the retention of the core workforce Also, raw material prices in the form of cement and sand has increased in FY 17 in the European market. Raw material consumption cost increased to 54.11 per cent as a percentage of revenue in FY 17 as against 51.01 per cent as a percentage of revenue in FY 16.

Working capital intensive operation

The operations are working capital intensive in nature marked by GCA days of 265 in FY 2017 as against 232 days in FY 2016. The high GCA days on account of debtor days of 61-86 during the period under review. The group on an average provides credit period of 60-90 days to its customers. The inventory generally maintained is between 60-75 days. The working capital intensity is also reflected from the full utilization of its limit during the 12 months ended September'17.

Outlook: Stable

SMERA believes that PCM Group will continue to benefit over the medium term from the group's long track record of operations and presence across geographies. The outlook may be revised to 'Positive' if PCM group achieves more than envisaged sales while improving its profitability metrics and working capital cycle. Conversely, the outlook may be revised to 'Negative' if the group fails to achieve growth in revenue or any further decline in profitability and financial risk profile further deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	1052.78	1188.05	1079.69
EBITDA	Rs. Cr.	61.28	116.70	97.99
PAT	Rs. Cr.	9.64	60.17	51.91
EBITDA Margin	(%)	5.82	9.82	9.08
PAT Margin	(%)	0.92	5.06	4.81
ROCE	(%)	6.26	11.45	21.09
Total Debt/Tangible Net Worth	Times	0.41	0.46	0.77
PBDIT/Interest	Times	3.76	6.13	8.67
Total Debt/PBDIT	Times	2.38	1.74	2.58
Gross Current Assets (Days)	Days	212	180	233

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto 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	Ratings/Outlook
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA BBB-/Stable

Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	11.01	SMERA BBB-/Stable
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3
Letter of Comfort	Not Applicable	Not Applicable	Not Applicable	89.99	SMERA BBB-/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.13	SMERA A3

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