



Press Release

PCM Cement Concrete Private Limited

August 14, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 40.00 crore*
Long Term Rating	ACUITE B+/ Outlook: Stable
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+** (read as ACUITE B plus) on the Rs. 12.00 crore bank facilities of PCM Cement Concrete Private Limited (PCCPL). The outlook is '**Stable**'.

Acuité has also reaffirmed the short-term rating from '**ACUITE A4** (read as ACUITE A four) on the Rs. 28.00 crore bank facilities of PCM Cement Concrete Private Limited (PCCPL).

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.

About the group

PCM group promoted by Late Padam Chand Mittal has diversified business interest. The group has a presence in manufacturing of concrete railway sleepers, flash butt welding, real estate, tea, media etc. In 1991, the group 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 prestressed 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 the majority of its revenue from PCM rail One AG.

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 PCMCPL & 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, a similar line of operations and cross guarantees. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

PCM group, promoted by Mr. Kamal Kumar Mittal, has a long track record of more than two decades in the manufacturing of sleepers and flash butt welding. Currently, the business is managed by the Mittal family with the second and third generation actively involved in the business. The extensive experience of the promoters is reflected through the established relationships with the group's customers and suppliers.

Acuité believes that PCM Group will continue to benefit from its established track record of operations and experienced management and their long-standing relationships with reputed customers and suppliers.

- 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.

Acuité believes that the group's presence across the globe will continue to support its business profile and enhance its market share. Acquisition of Rail One AG in 2013 has resulted in an improved scale of operation. During FY19, the group has registered revenue of Rs. 1,036.76 crore as compared to Rs. 1,126.17 crore in FY 18.

Weaknesses

- Decline in profitability metrics resulting in deterioration in the financial risk profile**

The financial risk profile of the group has been continuously deteriorating marked by moderation in coverage indicators despite healthy net worth. The net worth levels of PCM group have seen significant deterioration though remained healthy as on 31st March, 2019 as against 31st March, 2018, primarily due to net loss incurred by the group in FY2019.

The profitability of the PCM group has deteriorated during the last three years. In FY19, the operating margins declined to 3.22 per cent from 3.56 per cent and 5.82 in FY18 and FY17, respectively. The net profit margins declined in FY19 to (4.46) per cent from 0.93 per cent in FY18.

This had led to moderation in coverage indicators of the group marked by debt-service-coverage-ratio of 1.08 times as on 31st March, 2019 as against 2.92 times as on 31st March, 2018 and interest coverage ratio of 2.90 times as on 31st March, 2019 as against 3.35 times as on 31st March, 2018. Further, TOL/TNW has impacted marginally over the last three years to 1.89 times as on 31st March, 2019 as against 1.86 times as on 31st March, 2018 and 1.55 times as on 31st March, 2017. The decline in profitability is on account of performance in PSOVL wherein operating margins has declined to 3.33

per cent in FY19 from 5.83 per cent in FY18. In addition to this, PSOVL is not getting timely payments from one of its clients, which has impacted its debt servicing capability in the past for the loan taken for the project. Further, non-receipt of timely payments has impacted the liquidity in PSOVL, resulted in higher dependence on the working capital limits and there have been instances of overutilization of its working capital limits. Acuité believes any further decline in profitability of the group leading to deterioration in financial risk profile will impinge a negative bias towards the rating.

• Working capital intensive nature of operations

PCM Group's working capital operations continue to remain intensive as evident from the GCA of 259 days during FY19 as against 242 days in FY18 due to an increase in inventory levels. The inventory generally maintained is between 50-85 days for the period under review. The working capital intensity is also reflected from the full utilization of its limit during the six months ended March, 2020.

Acuité expects the operations of the company to remain working capital intensive on account of the high level of inventories to be maintained.

Rating Sensitivity

- Significant improvement in its working capital management.
- Improvement in profitability levels, thereby impacting group's debt coverage indicators.

Material Covenants

None

Liquidity: Stretched

The group has stretched liquidity profile marked by a limited cushion in net cash accruals to its maturing debt obligations and arrears from debtors in PSOVL. The group generated cash accruals of Rs. 8.52 crore for FY2019 as against maturing debt obligations of around Rs. 1.80 crore for the same period. PCM Group's working capital operations have deteriorated in FY2019 marked by significant increase in Gross Current Asset (GCA) days to 259 in FY2019 from 212 in FY2017. The increase in GCA has led to higher reliance on external borrowings indicated by fully utilized working capital limits. The current ratio stood at 2.07 times as on 31 March, 2019. The group maintains unencumbered cash and bank balances of Rs. 51.62 crore as on March 31, 2019 (PY: 98.28 crore). Acuité believes that the liquidity profile of the group is likely to improve over the medium term in the absence of any debt-funded capex. However, the timely receipts of payments from debtors will be a key contributing factor for the liquidity of PSOVL.

Outlook: Stable

Acuité believes that PCM Group will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the group demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the group generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1,036.76	1,126.17
PAT	Rs. Cr.	(46.26)	10.44
PAT Margin	(%)	(4.46)	0.93
Total Debt/Tangible Net Worth	Times	0.68	0.87
PBDIT/Interest	Times	2.90	3.35

Status of non-cooperation with other CRA

- CARE, vide its press release dated June 08, 2020 had denoted the rating of PCCPL as "CARE B+/ CARE A4; Issuer not co-operating" on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at "CARE BB/ Stable/ CARE A4+" vide its press release dated April 02, 2019.
- India Ratings, vide its press release dated January 23, 2019 had denoted the rating of PCCPL as "IND BB+/ IND A4+; Issuer not co-operating" on account of lack of adequate information required for monitoring of ratings.
- CRISIL, vide its press release dated August 06, 2019 had denoted the rating of PSOVL as "CRISIL B/ CRISIL A4; Issuer not co-operating" on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
June 16, 2020	Proposed Cash Credit	Long-Term	12.00	ACUITE B+/ Stable (Withdrawn)
	Proposed Term Loan	Long-Term	11.01	ACUITE B+/ Stable (Withdrawn)
	Cash Credit	Long-Term	12.00	ACUITE B+/ Stable (Reaffirmed)
	Proposed Bank Guarantee	Short-Term	10.87 (Reduced from Rs. 15.00 crore)	ACUITE A4 (Reaffirmed)

	Proposed Bank Guarantee	Short-Term	89.99	ACUITE A4 (Withdrawn)
	Bank Guarantee	Short-Term	17.13	ACUITE A4 (Reaffirmed)
17 th December, 2019	Proposed Cash Credit	Long-Term	12.00	ACUITE B+ (Downgraded; Issuer not co-operating*)
	Proposed Term Loan	Long-Term	11.01	ACUITE B+ (Downgraded; Issuer not co-operating*)
	Proposed Bank Guarantee	Short-Term	15.00	ACUITE A4 (Downgraded; Issuer not co-operating*)
	Proposed Letter of Comfort	Short-Term	89.99	ACUITE A4 (Downgraded; Issuer not co-operating*)
	Bank Guarantee	Short-Term	2.13	ACUITE A4 (Downgraded; Issuer not co-operating*)
	Proposed Cash Credit	Long-Term	12.00	ACUITE BBB- (Issuer not co-operating*)
12 th June, 2019	Proposed Term Loan	Long-Term	11.01	ACUITE BBB- (Issuer not co-operating*)
	Proposed Bank Guarantee	Short-Term	15.00	ACUITE A3 (Issuer not co-operating*)
	Proposed Letter of Comfort	Short-Term	89.99	ACUITE A3 (Issuer not co-operating*)
	Bank Guarantee	Short-Term	2.13	ACUITE A3 (Issuer not co-operating*)
	Proposed Cash Credit	Long-Term	12.00	ACUITE BBB-/ Stable (Assigned)
19 th March, 2018	Proposed Term Loan	Long-Term	11.01	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Guarantee	Short-Term	15.00	ACUITE A3 (Assigned)
	Proposed Letter of Comfort	Short-Term	89.99	ACUITE A3 (Assigned)
	Bank Guarantee	Short-Term	2.13	ACUITE A3 (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE B+/ Stable (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.87	ACUITE A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.13	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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