

Press Release

Prime Meiden Limited (PML)

June 06, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE A1+(SO) (Reaffirmed)

* Refer Annexure for details

Rating Rationale

ACUITE has reaffirmed a short term rating of **ACUITE A1+ (SO) (read as ACUITE A one plus Structured Obligation)** to the Rs. 25.00 crore bank facilities of Prime Meiden Limited (PML).

The facilities of the company are secured by Standby Letter of Credit (SBLC) from Sumitomo Mitsui Banking Corporation, Japan. ACUITE has assigned the rating based on the Credit enhancement in the form of SBLC.

Prime Meiden Ltd (PML) is an Indo-Japanese joint venture company of the Prime Group and Meidensha Corporation. The group is virtually present in every major sector of the economy such as power and energy, aviation, space, railways, defense, IT, infrastructure, industries including automobile & metallurgical industry, petroleum, oil, gas, steel, fertilizers and ship building etc. PML is in the business of manufacturing Extra Heavy transformers up to 765 kV in Special Economic Zone (SEZ), Naidupeta, district Nellore (AP).

About Sumitomo Mitsui Banking Corporation

Sumitomo Mitsui Banking Corporation (SMBC) is a Japanese multinational banking and financial services company headquartered in Yurakucho, Chiyoda, Tokyo, Japan. Since December 2002, Sumitomo Mitsui Banking Corporation (SMBC) has been a wholly-owned subsidiary of Sumitomo Mitsui Financial Group Inc. (SMFG), a financial holding company. SMBC is the second largest bank in Japan by assets. It serves wide range of financial needs including deposits, loans and wealth management for 27 million account holders. For nine months ended December 2018, the bank reported operating income of ¥ 4,391.12 Billion (INR 2,747.98 billion) and Operating profit of ¥ 931.46 Billion (INR 582.91 billion). The total assets of the bank stood at ¥ 202,000 Billion (INR 126,412.61 Billion) and Shareholders' Equity of ¥ 8,961.28 Billion (INR 5608.01 Billion) as on 31 December 2018.

Analytical Approach

ACUITE has considered the credit enhancement in the form of SBLC from Sumitomo Mitsui Banking Corporation while arriving at the rating. Any change in the credit profile of the SBLC issuing bank will be a key rating sensitivity factor.

Key Rating Drivers

Strengths

• Experienced Management

PML is a 60 per cent subsidiary of Meidensha Corporation (MC), Japanese, Tokyo-based company. MC (Japan) is engaged in the manufacturing and selling of generators, substation equipment, water treatment equipment, electronic equipment, and information equipment. It is listed on the Tokyo Stock Exchange and is a constituent of the Nikkei 225. The company was established by Hosui Shigemune for the manufacture of electric motors in Kyobashi, Tokyo.

PML was incorporated in 2008 by Mr. Surinder Mehta founder chairman of Prime Group of companies who possesses more than three decades of experience in the industry. Mr. Rohan Mehta managing director of the company is also well experienced in the line and has a degree in Electronic Engineering from Oxford Brookes University (U.K).

- **Facilities secured by SBLC from Sumitomo Mitsui Banking Corporation**

The bank facilities to PML comprise Letter of credit and letter of guarantee aggregating Rs. 25.00 crore which are secured by a Standby Letter of Credit (SBLC) from SMBC which amounts to Rs.27.50 crore. The SBLC from SMBC was valid till August 31, 2019. The SBLC is renewed on an annual basis. The rating assumes that this SBLC will be renewed in a timely manner so as to cover the lending bank's exposure till the maturity of the facilities. Similarly the rating is also sensitive to changes in the credit profile of SBLC issuing bank i.e. Sumitomo Mitsui Banking Corporation.

Weaknesses

- **Decline in operating income:**

PML's operating income is declined to Rs.126.00 crore in FY2019 (Provisional) as against Rs.152.92 crore a year earlier. Going forward, ACUITE believes the revenue of the company is likely to increase steadily on account of healthy order book position of Rs. 161.09 crore as on 31st march 2019(Provisional).

- **Working Capital intensive nature of operations**

PML has working capital intensive operations with gross current assets (GCA) of 375 days for FY2018 which increased from 303 days in FY2017 on account of increase in receivables of 209 days and inventory of 116 days in FY2018 as against 137 days and 97 days respectively in FY 2017.

- **Exposed to intense competition**

The company is exposed to intense competition in the power industry.

Outlook: Stable

ACUITE believes that Prime meiden limited will continue to benefits from experienced management and association with SMBC. The outlook may be revised to 'Positive' if the company increase its scale of business operations while reducing its losses. Conversely, the outlook may be revised to 'Negative' in case the company financial risk profile deteriorates significantly.

Liquidity position

The company has stressed liquidity marked by negative net cash accruals to its maturing debt obligations. PML has cash accruals of Rs.(31.16) crore during financial year 2018, while there was no significant maturing debt obligation for the same period. The cash accruals of the company are estimated to be Rs. (36.47) crore in FY2019 to Rs.(39.00) crore in FY21 while there will be no significant maturing debt obligation for the period (FY 2019-2021). The company maintains cash and bank balances of Rs.2.87 crore as on March 31, 2018. The current ratio of the company stands moderate at 0.70 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain low over the medium term on account of negative cash accrual to its maturing debt obligation.

About the Rated Entity - Key Financials

	Unit	FY18	FY17	FY16
Operating Income	Rs. Cr.	153.71	152.92	185.73
EBITDA	Rs. Cr.	(17.76)	(29.48)	(42.16)
PAT	Rs. Cr.	(40.69)	(158.62)	(56.18)
EBITDA Margin	(%)	(11.55)	(19.28)	(22.70)
PAT Margin	(%)	(26.47)	(103.73)	(30.25)
ROCE	(%)	(9.97)	(24.50)	(82.02)

Total Debt/Tangible Net Worth	Times	(119.03)	4.50	2.98
PBDIT/Interest	Times	(0.86)	(0.91)	(1.15)
Total Debt/PBDIT	Times	(17.45)	(6.58)	(3.60)
Gross Current Assets (Days)	Days	375.00	303.00	201.00

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Structured transactions: <https://www.acuite.in/criteria-securitization.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
04-April-2018	Letter of credit	Short term	13.00	ACUITE A1+ (SO) (Assigned)
	Letter of guarantee	Short term	12.00	ACUITE A1+ (SO) (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
Letter of credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A1+ (SO) (Reaffirmed)
Letter of guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A1+ (SO) (Reaffirmed)

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About Acuité Ratings & Research:

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