

Press Release

PCM Stresscon Overseas Ventures Limited

12 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 200.81 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. 200.81 crore bank facilities of PCM Stresscon Overseas Ventures Limited (PSOVL). The outlook is '**Stable**'.

Incorporated in 2006, PCM Stresscon Overseas Ventures Limited (PSOVL) is part of the PCM group with PCM Cement Concrete Private Limited (PCCPL rated at SMERA BBB-/Stable/A3) holding 61 per cent in PSOVL. The company is engaged in manufacturing of pre-stressed concrete sleepers. Over the years, PSOVL has successfully executed projects for production and supply of pre-stressed concrete railway sleepers for North South Railway Project of Saudi Arabia Railways (SAR) and Etihad Rail in the UAE. The Company is presently executing project in the domestic market for The Dedicated Freight Corridor Corporation of India (DFCC), Larsen & Toubro Limited, Tata Projects Limited and Ircon International Limited.

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. 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

SMERA has taken a standalone view of the business and financial risk profile of PSOVL. However, SMERA derives comfort from the support of the PCM group, since PSOVL is an integral part of the PCM group with strategic importance for executing projects in the domestic and Middle East markets. SMERA believes that the group is expected to extend financial support in case of exigencies to PSOVL.

Key Rating Drivers

Strengths

Experienced management

PSOVL has a long track record of more a decade in manufacturing of sleepers. The company 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.

Healthy order book position and reputed clientele

The company has a healthy order book of Rs 525 crs for manufacturing of concrete sleepers which are expected to be executed in the next 2-3 years. The orders to be executed are from reputed clients namely The Dedicated Freight Corridor Corporation of India (DFCC), Larsen & Toubro Limited, Tata Projects Limited and Ircon International Limited. The healthy order book provides revenue visibility in the medium term.

Improvement in the operating income

The company has clocked revenue of Rs 87.05 crs in FY 17 as compared to Rs 35.50 crs in FY 16 thereby registering a y-o-y growth of 145.21 per cent. Till December'17 PSOVL has registered Rs 109.69 crs (prov). The growth in operating income is on account of executing domestic orders for western corridor DFCC projects in Marwar and Bhagega in Rajasthan.

Weaknesses

Operating Level Losses

The company has suffered operating level losses of Rs (8.57 crs) i.e (9.85 per cent) in FY 17 as compared to operating level loss of Rs (5.64 crs) i.e (15.90 per cent) in FY 16. The losses are on account of cancellation of Delhi Metro Railway Corporation (DMRC) project in 2017 and on account of administration cost incurred for maintaining the plant setup in UAE and Saudi Arabia where the management is expecting significant orders in the next 2 -3 years.

Working capital intensive operation

The operations are working capital intensive in nature marked by cycle days of 129 in FY 2017 as against 57 days in FY 2016. The rise in cycle days is on account of increase in debtors days to 150 days as compared to 125 days in FY 2016. The group on an average provides credit period of 100-150 days to its customers. The inventory generally maintained is between 60-75 days.

Outlook: Stable

SMERA believes that PSOVL will continue to benefit over the medium term from the established position of the group concrete sleeper manufacturing business and healthy order book position. The outlook may be revised to 'Positive' if PSOVL 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.	87.05	35.50	4.78
EBITDA	Rs. Cr.	(8.57)	(5.64)	(14.49)
PAT	Rs. Cr.	3.35	(3.27)	(12.51)
EBITDA Margin	(%)	(9.85)	(15.90)	(303.05)
PAT Margin	(%)	3.85	(9.21)	(261.56)
ROCE	(%)	4.15	(0.81)	(11.42)
Total Debt/Tangible Net Worth	Times	0.26	0.19	0.05
PBDIT/Interest	Times	2.03	(0.34)	(5.36)
Total Debt/PBDIT	Times	4.22	(59.11)	(0.85)
Gross Current Assets (Days)	Days	866	2036	11997

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 Term Loan	Not Applicable	Not Applicable	Not Applicable	22.66	SMERA BBB-/Stable
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	126.70	SMERA A3
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	51.45	SMERA A3

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ABOUT SMERA

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