Press Release

PCM Stresscon Overseas Ventures Limited

August 14, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 140.00 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)** on the Rs. 7.07 crore bank facilities of PCM Stresscon Overseas Ventures Limited (PSOVL). The outlook is **'Stable'**.

Acuité has also reaffirmed the short-term rating of **"ACUITE A4' (read as ACUITE A4)** on the Rs. 132.93 crore bank facilities of PCM Stresscon Overseas Ventures Limited (PSOVL).

The rating is on account of higher-than-expected deterioration in financial risk profile coupled with deterioration in working capital. The margins for the group has been continuously declining since FY2017. The operating margins stood at 3.22 per cent for FY2019 as against 3.56 per cent in the previous year and 5.82 per cent in FY2017. This has also led to the deterioration in coverage indicators marked by interest coverage ratio of 2.90 times for FY2019 (PY: 3.35 times) and debt service coverage ratio of 1.08 times for FY2019 (PY: 2.92 times). Further, the working capital of the group has also deteriorated marked by Gross Current Asset (GCA) of 259 days for FY2019 as against 242 days in FY2018. The increase in working capital is majorly on account of an increase in inventory days. The deterioration in working capital has led to increasing reliance on external borrowing marked by fully-utilized working capital limits. Further, PSOVL is not getting timely payments from one of its key customers, which has impacted its debt servicing capability in the past for the loan taken for the project. In addition to this, 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 over utilisation of its working capital limits. Any further deterioration in working capital leading to higher reliance on external borrowing will impart a negative biased towards the rating.

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 a 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 a presence in manufacturing of concrete railway sleepers, flash butt wielding, real estate, tea, media etc. In 1991, the group ventured in manufacturing of railway sleepers and flash butt wielding 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 a majority of its revenue from PCM rail One AG.

Analytical Approach

Acuité has changed the rating approach of PSOVL. Earlier, Acuité had taken a standalone view of the business and financial risk profile of PSOVL in addition to deriving 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. At present, Acuité 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, 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 wielding. 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 over utilisation 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 in 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	Term Loan	Long-Term	7.07	ACUITE B/ Stable (Downgraded)
	Proposed Term Loan	Long-Term	22.66	ACUITE B/ Stable (Downgraded & Withdrawn)
	Proposed Letter of Credit	Short-Term	51.45	ACUITE A4 (Downgraded & Withdrawn)
	Proposed Bank Guarantee	Short-Term	32.30 (Reduced from Rs. 126.70)	ACUITE A4 (Downgraded)
	Bank Guarantee	Short-Term	66.34	ACUITE A4 (Downgraded)
	Letter of Credit	Short-Term	34.29	ACUITE A4 (Downgraded)
03rd July, 2019	Proposed Term Loan	Long-Term	22.66	ACUITE BB (Downgraded; Issuer not co-operating*)
	Proposed Bank Guarantee	Short-Term	126.70	ACUITE A4+ (Downgraded; Issuer not co-operating*)

	Proposed Letter of Credit	Short-Term	51.45	ACUITE A4+ (Downgraded; Issuer not co-operating*)
12th April, 2019	Proposed Term Loan	Long-Term	22.66	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Guarantee	Short-Term	126.70	ACUITE A3 (Assigned)
	Proposed Letter of Credit	Short-Term	51.45	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
Term Loan	Not Available	Not Applicable	Not Available	7.07	ACUITE B/ Stable (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	32.30	ACUITE A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	66.34	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	34.29	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.