

Press Release

Phils Heavy Engineering Private Limited (PHEPL)

13 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.50.00 Cr
Long Term Rating	SMERA BB+/Stable
Short Term Rating	SMERA A4+

*Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of '**SMERA BB+**' (read as **SMERA Double B Plus**) and the short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.50.00 crore bank facilities of Phils Heavy Engineering Private Limited (PHEPL). The outlook is '**Stable**'.

Phils Heavy Engineering Private Limited (PHEPL) is a Mumbai based company incorporated in 1992 and promoted by Mr. P.V. Philip who originally started the company as Phils Engineering Corp. in 1971. The company manufactures medium sized to heavy equipment such as heat exchangers, pressure vessels, columns for petrochemicals, gas, fertilizer, chemical, and refineries Industries. The company has accreditation of QMS- ISO 9001:2008, EMS- ISO 14001:2004, OHSAS 18001: 2007, ASME 'U' & 'U2', NBS 'R'.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

PHEPL is engaged in manufacturing of medium sized to heavy equipment such as heat exchangers, pressure vessels, and sheet exchanger since 1992. The Promoter, Mr. P.V. Philip has more than four decades of experience in the same line of business.

Healthy order book position

The company has bagged orders from M/s. Dangote Petroleum Refinery and Petrochemicals Fze (Nigeria based company) worth around USD 35.01 Million (Rs.227.55 crore) to be completed in next few years. The company also caters to the domestic market and has order worth around Rs.11.13 crore from reputed clients such as Indian Oil Corporation Ltd, Hindustan Petroleum Corporation Ltd, JSW Steel and others.

Improving financial risk profile

The financial risk profile of the company is moderate marked by gearing of 0.94 times as on 31 March, 2017 as against 0.91 times in the previous year. The interest coverage ratio stood at 2.40 times for FY2017 as against -3.13 times in FY2016. The DSCR stood at 2.05 times for FY2017 as against -2.39 times in the previous year. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.14 times in FY2017 as against -0.26 times in FY2016. The tangible net worth is healthy at Rs.36.65 crore as on 31 March, 2017 (treating unsecured loan of Rs.17.74 crore as equity).

Weaknesses

Fluctuating scale of operation

SMERA Ratings Limited

The operating income of the company has been decreasing to Rs.9.93 crore in FY2016-17 as compared to Rs.25.77 crore in FY2015-16 and Rs.43.54 crore in FY2014-15. It has reported revenue of Rs.27 crore for FY2018 (provisional). The company expects to book high revenues crore on account of execution of order received from M/s. Dangote Petroleum Refinery and Petrochemicals Fze.

Customer concentration risk

The total revenue for PHEPL for FY2017 stood at Rs.9.93 crore. The revenue from M/s. Dangote Petroleum Refinery and Petrochemicals Fze Company constituted about 70% of the total sales in FY2017 indicating a high customer concentration risk. However, the ECGC cover on the advance payments and SBLC issued by client towards payment for dispatch of equipment's reduces the risk.

Working capital intensive operations due to long gestation period

The operations are working capital intensive in nature marked by Gross Current Asset (GCA) days of 2520 in FY2017 and 350 in FY 2016. This is on account of long gestation period of around 18-24 months for executing the contracts. The company maintains high inventory of raw material and work-in-process of Rs.59.64 crore in FY2017 as compared to Rs.7.18 crore for FY2016.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Phils Heavy Engineering Private Limited to arrive at the rating.

Outlook - Stable

SMERA believes that PHEPL will maintain a stable outlook over the medium term on account of the experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues and improved profitability while improving liquidity position. Conversely, the outlook may be revised to 'Negative' if there is steep decline in company's revenues and profitability or deterioration in company's financial risk profile owing to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	9.93	25.77	43.54
EBITDA	Rs. Cr.	8.03	(3.61)	4.80
PAT	Rs. Cr.	1.11	(6.81)	0.45
EBITDA Margin	(%)	80.86	(14.01)	11.02
PAT Margin	(%)	11.18	(26.40)	1.04
ROCE	(%)	9.73	(17.41)	15.17
Total Debt/Tangible Net Worth	Times	0.94	0.91	0.49
PBDIT/Interest	Times	2.40	(3.13)	3.02
Total Debt/PBDIT	Times	3.94	(4.85)	2.04
Gross Current Assets (Days)	Days	2,520	350	205

Any other information:

None

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Status of non-cooperation with previous CRA (if applicable):

None

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 (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.82	SMERA BB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A4+
Bank Guarantee-I	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A4+
Bank Guarantee-II	Not Applicable	Not Applicable	Not Applicable	15.18	SMERA A4+

Contacts:

Analytical	Rating Desk
Suman Chowdhury, President – SMERA Bond Ratings Tel: 022-6714 1107 suman.chowdhury@smera.in Disha N. Parmar, Rating Analyst, Tel: +91-22-6714 1120 disha.parmar@smera.in	Varsha Bist Manager- Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

SMERA Ratings Limited