

## Press Release

### Phils Heavy Engineering Private Limited (PHEPL)

24 April, 2018



#### Rating Reaffirmed and Assigned

<b>Total Bank Facilities Rated*</b>	Rs.125.00 Cr. (Enhanced from Rs. 50.00 Cr.)
<b>Long Term Rating</b>	SMERA BB+/Stable (Reaffirmed and Assigned)
<b>Short Term Rating</b>	SMERA A4+ (Reaffirmed and Assigned)

*\*Refer Annexure for details*

#### Rating Rationale

SMERA has reaffirmed 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). Further, 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.75.00 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 by Mr. P.V. Philip (erstwhile known 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 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 the next few years. The company also caters to the domestic market and has order book worth around Rs.11.13 crore from reputed clients such as Indian Oil Corporation Ltd, Hindustan Petroleum Corporation Ltd, JSW Steel to name a few.

##### 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

The operating income of the company has decreased 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 is expected to book high revenues 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, of which about 70% of the total sales was revenue from M/s. Dangote Petroleum Refinery and Petrochemicals Fze Company 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 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 FY2016. 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

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### 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
13 April, 2018	Cash Credit	Long Term	3.00	SMERA BB+/Stable (Assigned)
	Term Loan	Long Term	1.82	SMERA BB+/Stable (Assigned)
	Letter of Credit	Short Term	10.00	SMERA A4+ (Assigned)
	Bank Guarantee-I	Short Term	20.00	SMERA A4+ (Assigned)
	Bank Guarantee-II	Short Term	15.18	SMERA A4+ (Assigned)

### \*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 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.82	SMERA BB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA BB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	24.00	SMERA A4+ (Reaffirmed)

Bank Guarantee-I	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A4+ (Reaffirmed)
Bank Guarantee-II	Not Applicable	Not Applicable	Not Applicable	15.18	SMERA A4+ (Reaffirmed)
Bank Guarantee-III	Not Applicable	Not Applicable	Not Applicable	48.42	SMERA A4+ (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.58	SMERA A4+ (Assigned)

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### ABOUT SMERA

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