

Press Release

Phils Heavy Engineering Private Limited

June 20, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 125.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) from **ACUITE BB+/Stable** (read as **ACUITE double B plus**) and short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from **ACUITE A4+** (read as **ACUITE A four plus**) to Rs.125.00 crore bank facilities of Phils Heavy Engineering Private Limited (PHEPL). The outlook is '**Stable**'.

The rating is upgraded on account of ability of the company to demonstrate healthy revenue growth on successfully completion of orders from M/s. Dangote Petroleum Refinery and Petrochemicals Fze. With current order book of Rs.174.42 crore, Acuite expected the revenues to grow in near to medium term. Further, it is expected that the financial risk profile and debt protection metrics of the company to remain healthy with adequate liquidity position. Further, it has a healthy order book position of Rs. 174.42 crore thereby reflecting revenue visibility for the company.

Phils Heavy Engineering Private Limited (PHEPL) is a Mumbai based company incorporated in 1992 and promoted 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, 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'.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the PHEPL to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations

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.

Consistent growth in revenues and healthy profitability

The operating income of the company has been improving to Rs.104.37 crore in FY2019(P) as compared to Rs.26.57 crore in FY2018 and Rs.9.93 crore in FY2017. The revenue growth is on account of execution of order received from M/s. Dangote Petroleum Refinery and Petrochemicals Fze. The company had total order book of Rs.279.34 crore from M/s. Dangote Petroleum Refinery and Petrochemicals Fze and around Rs.123.58 crore is executed. The remaining shall be executed and registered in consecutive year. The operating margins stood healthy at 15.21 percent in FY2019P and profit after tax (PAT) margin at 6.05 percent in FY2019P.

Healthy order book position

The company has orders of around Rs.174.42 crore from M/s. Dangote Petroleum Refinery and Petrochemicals Fze (Nigeria based company) and the domestic players such as Indian Oil Corporation Ltd, Hindustan Petroleum Corporation Ltd, BPCL and others.

Comfortable financial risk profile

The financial risk profile of the company is comfortable marked by gearing of 0.72 times as on 31 March, 2019P as against 0.50 times in the previous year. The interest coverage ratio stood at 4.30 times for FY2019P as against 2.97 times in FY2018. The DSCR stood at 2.34 times for FY2019P as against 2.11 times in the previous year. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.32 times in FY2019P as against 0.44 times in FY2018. The tangible net worth is healthy at Rs.47.14 crore as on 31 March, 2019 (treating unsecured loan of Rs.17.74 crore as equity). Acuite believes that the financial risk profile of the company will remain comfortable in the absence of any major debt funded capex in near future and backed by healthy net cash accruals.

Weaknesses

Customer concentration risk

The total revenue for PHEPL for FY2019P stood at Rs.104.37 crore, of which about 90% of the total sales are 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 378 in FY2019(P) and 1332 in FY 2018. 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.78.74 crore in FY2019P as compared to Rs.83.57 crore for FY2018.

Outlook: Stable

Acuite believes that PHEPL will maintain stable business risk profile on account of its 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.

Liquidity profiles

PHEPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.68 to Rs.10.87 crore during the last three years through 2018-19P, while its maturing debt obligations were in the range of Rs.1.84 to Rs.2.41 crore over the same period. The cash accruals of the company are estimated to remain around Rs.12.60 – 17.70 crore during 2020-22 while its repayment obligation are estimated to be around Rs. 1.93 to Rs.2.46 crore. The company's operations are working capital intensive due to long gestation period of around 18-24 months as marked by gross current asset (GCA) days of 378 in FY2019P. The company maintains unencumbered cash and bank balances of Rs.1.96 crore as on March 31, 2019P. The current ratio of the company stand healthy at 1.30 times as on March 31, 2019P. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	104.37	26.57	9.93
EBITDA	Rs. Cr.	15.88	12.29	8.03
PAT	Rs. Cr.	6.32	4.17	1.11
EBITDA Margin	(%)	15.21	46.27	80.86
PAT Margin	(%)	6.05	15.68	11.18
ROCE	(%)	17.14	12.91	9.73
Total Debt/Tangible Net Worth	Times	0.72	0.50	0.94
PBDIT/Interest	Times	4.30	2.97	2.40
Total Debt/PBDIT	Times	2.01	1.53	3.94
Gross Current Assets (Days)	Days	378	1,332	2,520

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
13 April, 2018	Cash Credit	Long Term	3.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	1.82	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Assigned)
	Bank Guarantee I	Short Term	20.00	ACUITE A4+ (Assigned)
	Bank Guarantee II	Short Term	15.18	ACUITE A4+ (Assigned)
24 April, 2018	Cash Credit	Long Term	3.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.82	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	12.00	ACUITE BB+/Stable (Reaffirmed)
	Letter of Credit	Short Term	24.00	ACUITE A4+ (Reaffirmed)

	Bank Guarantee I	Short Term	20.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee II	Short Term	15.18	ACUITE A4+ (Reaffirmed)
	Bank Guarantee III	Short Term	48.42	ACUITE A4+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	0.58	ACUITE A4+ (Reaffirmed)

***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	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
PCFC	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Upgraded from ACUITE A4+)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.37	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	23.50	ACUITE A3 (Upgraded from ACUITE A4+)
Bank Guarantee I	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Upgraded from ACUITE A4+)
Bank Guarantee II	Not Applicable	Not Applicable	Not Applicable	20.60	ACUITE A3 (Upgraded from ACUITE A4+)
Bank Guarantee III	Not Applicable	Not Applicable	Not Applicable	36.53	ACUITE A3 (Upgraded from ACUITE A4+)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Disha Parmar Analyst - Rating Operations Tel: 022-49294064 disha.parmar@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (Erstwhile SMERA Ratings 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.

Disclaimer: *An Acuite 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. Acuite 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, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite 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. Acuite 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.acuite.in) for the latest information on any instrument rated by Acuite.*