

Press Release

Phils Heavy Engineering Private Limited

November 03, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 125.00 crores
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 125.00 crores bank facilities of Phils Heavy Engineering Private Limited (PHEPL). The outlook is '**Stable**'.

Mumbai based, PHEPL (erstwhile known as Phils Engineering Corp. in 1971) was incorporated in 2009 by Mr. P.V. Philip. The company is engaged in manufacturing medium to heavy sized equipments such as heat exchangers, pressure vessels, columns for petrochemicals, gas, fertilizer, chemical and refineries Industries. The company has accreditation of QMSISO 9001:2008, EMS- ISO 14001:2004, OHSAS 18001: 2007, ASME 'U' & 'U2', NBS 'R'.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and improving scale of operations**

PHEPL is promoted by Mr. Varghese Philip and Mr. Ajay Philip. The promoters have a combined experience over 30 years in the heavy engineering industry. The top management of the company is aided by an equally experienced second line of management personnel. The company has been able to establish a long and healthy relationship with its customers and suppliers owing to the promoter's rich experience and the long track record of operations of nearly 30 years. Further PHEPL has been able to improve its scale of operations year on year backed by repeated orders by its customers as seen by the turnover of Rs. 141.96 crores as on 31st March 2020 (Provisional) as against Rs. 104.07 crores as on 31st March 2019 and Rs. 26.57 crores as on 31st March 2018. The current year revenues of HIL stood at ~Rs. 28.48 crores till September 2020. Acuité believes PHEPL will continue to benefit over the medium term from its longstanding association with its key supplier as well as customers.

- **Moderate financial risk profile**

PHEPL's financial risk profile is marked by its moderate net worth, healthy gearing and heavy debt protection measures. The net worth increased to Rs. 73.31 crore as on 31 March, 2020 (Provisional) as against Rs.46.54 crore in the previous year on account of stable profitability leading to higher accretion to reserves. The company's gearing is estimated to be moderate at 0.15 times as on 31 March, 2020 (Provisional) as against 0.72 times in the previous year. The company has previously followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.72 times as on March 31, 2019. The deterioration in gearing levels is on account of the capital expenditure expenses incurred by the company, which is evident by the increment in the debt levels. The total debt of Rs.10.92 crore consists of long term debt of Rs.7.54 crore, and Rs.3.32 crore of short term debt obligations as on 31st March 2020 (Provisional). The moderate profitability levels have resulted in moderate net cash accruals of Rs.30.62 crore during FY2020 (Provisional) as against repayment obligations of Rs. 2.68 crore. The interest coverage ratio stood healthy at 15.07 times in FY2020 (Provisional) as against 4.30 times in the previous year. NCA/TD ratio stood 2.80 times in FY2020

(Provisional). Acuité believes that HIL'S financial risk profile is expected to be moderate however the company's ability to maintain the profitability levels and debt protection matrices will remain crucial in maintaining the financial risk profile in near to medium term.

Weaknesses

• Working Capital Intensive Operations

PHEPL's working capital cycle is intensive in nature as reflected by the Gross Current Asset (GCA) days of the company which are around 147 days in FY2020 (Provisional) as compared to 388 days in the previous year due to elongation in the inventory holding period. This is on account of a long gestation period of around 18-24 months for executing the contracts. The company maintained an inventory of raw material and work-in-process of Rs.32.90 crore (~122 days) in FY2020 (Provisional) as compared to Rs.78.79 crore (~324 days) for FY2019. The debtor collection period of PHEPL remained at the same levels as it stood at 6 days for FY2020 (Provisional) as compared to 10 days in FY2019. Further, the creditor collection period stood at 101 days as on March 2020 (Provisional). However, the average bank limit utilization of the company for the last 6 month period ending on 30th September 2020 stood low at around 25.72%. Acuité believes that PHEPL's credit risk profile will remain dependent on its ability to manage its working capital requirements over the near to medium term.

• Customer Concentration Risk and raw material price fluctuation risk

PHEPL faces customer concentration risk as around 81 percent of the company's total sales of Rs. 141.96 crores in FY2020 (Provisional) was generated via one client, i.e. Dangote Petroleum Refinery & Petrochemicals FZE amounting to Rs. 115.01 crores. Acuité believes that PHEPL'S business is highly dependent on the company's ability to diversify the business revenue streams and diversification of customers.

Liquidity Position: Adequate

PHEPL has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.30.62 to Rs.8.91 crore during the last three years through 2018- 20 (Provisional), while its maturing debt obligations were in the range of Rs.2.68 to Rs.2.41 crore over the same period. The cash accruals of the company are estimated to remain around Rs.12.97 - 28.63 crore during 2020-22 (Provisional) while its repayment obligation is estimated to be around Rs. 2.56 to Rs.2.30 crore. The company's operations are working capital intensive due to a long gestation period of around 18-24 months as marked by gross current asset (GCA) days of 147 in FY2020 (Provisional). The company maintains unencumbered cash and bank balances of Rs.2.25 crore as on March 31, 2020 (Provisional). The current ratio of the company stands healthy at 2.13 times as on March 31, 2020 (Provisional). Acuité 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.

Rating Sensitivity

- Significant improvement in the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile and improvement in working capital intensity.
- Deterioration in working capital or financial risk profile due to debt-funded capex.

Outlook: Stable

ACUITE 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 a 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	141.96	104.07
PAT	Rs. Cr.	26.86	5.81
PAT Margin	(%)	18.92	5.58

Total Debt/Tangible Net Worth	Times	0.15	0.72
PBDIT/Interest	Times	15.07	4.30

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Instruments and adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Jun-2019	Bank Guarantee	Short Term	20.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Term Loan	Long Term	6.37	ACUITE BBB- / Stable (Upgraded from ACUITE BB+ / Stable)
	Cash Credit	Long Term	3.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB+ / Stable)
	Packing Credit	Short Term	15.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	23.50	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	20.60	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	36.53	ACUITE A3 (Upgraded from ACUITE A4+)
24-Apr-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 (Assigned)
	Letter of Credit	Short Term	24.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	15.18	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	48.42	ACUITE A4+ (Assigned)

	Proposed Bank Guarantee	Short Term	0.58	ACUITE A4+ (Assigned)
13-Apr-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	Short Term	20.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	15.18	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Name of the Bank	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	Canara Bank	ACUITE BBB-/Stable (Reaffirmed)
PCFC	Not Applicable	Not Applicable	Not Applicable	15.00	Canara Bank	ACUITE A3 (Reaffirmed)
Term Loan	Not Available	Not Available	Not Available	6.37	Zoroastrian Co-operative Bank Ltd	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	23.50	Canara Bank	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	Canara Bank	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.60	Canara Bank	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	36.53	Canara Bank	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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