



Press Release
Phils Heavy Engineering Private Limited
May 12, 2022
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	26.60	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	98.40	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	125.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rating rationale

The rating reaffirmation is on account of the healthy financial risk profile and the adequate liquidity position of the company. The rating also factors in the experienced management with long track record of operations and reputed clientele. The decline in scale of operations and the working capital intensive nature of operations impart a negative bias to the rating. Any further decline in scale of operations or any further elongation in working capital cycle will continue to remain a key rating sensitivity.

About the Company

PHEPL is a Mumbai based company incorporated in 1992 promoted by Mr. P.V. Philip. The company started its operations as Phils Engineering Corp in 1971. PHEPL is engaged in the manufacturing of 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 PHEPL to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management

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 relationships with reputed clients like Bharat Petroleum Corporation Limited, Dangote Petroleum Refinery & Petrochemicals Fze, Indian Oil Corporation Limited, Linde India owing to the promoter's rich experience and the long track record of operations.

Acuité believes PHEPL will continue to benefit over the medium term from its longstanding association with its customers.

Healthy financial risk profile albeit some moderation in the coverage indicators

PHEPL has a healthy financial risk profile marked by a healthy tangible net worth of Rs.79.22 crore as on 31 March 2021 as against Rs.73.68 crore as on 31 March 2020. The financial risk profile remains healthy despite the decrease in the revenues. PHEPL's gearing remained low at 0.09 times as on 31 March 2021 as against 0.15 times as on 31 March 2020. The gearing is expected to be in the range of 0.05-0.08 times for the period FY22-FY24. The total debt of the company for FY21 comprised of long term debt of Rs.2.69 crore and short term debt of Rs.1.04 crore as on 31 March 2021. The coverage ratios of the company deteriorated but remained healthy with Interest Coverage Ratio (ICR) of 2.38 times for FY21 against 14.92 times for FY20. Further going forward the Interest coverage ratio is expected to be in the range of 13.24-15.48 times for FY22-FY24. The Debt Service Coverage Ratio (DSCR) stood at 2.25 times for FY21 against 6.51 times for FY20. The Debt Service Coverage Ratio is expected to be in the range of 3.46-5.28 times for FY22-FY24. The total outside liabilities to tangible net worth (TOL/TNW) of the company improved and stood at 0.60 times for FY21 as against 0.83 for FY20.

Acuité believes that PHEPL'S financial risk profile is expected to remain in near to medium term.

Weaknesses

Decline in scale of operations

PHEPL reported revenue of Rs. 68.21 Cr. in FY2022 (Provisional) against Rs. 64.28 Cr. in FY2021 and Rs.141.95 Cr. in FY2020. The decline in revenue in FY2021 is primarily due to completion of a large order from Dangote petroleum in the previous year. This order had contributed to 81 percent to the revenue in FY20. However even with the decline in the revenue, the company is able to maintain stable operating profit margin in FY2022 (Provisional) of 26.02 percent as against 17.85 percent in FY2021. This is as the company primarily undertakes contracts where raw materials are provided by the principal. PHEPL has orders in hand of Rs. 84.20 Cr. thus providing some revenue visibility over the short term.

However, Acuité believes any further decline in PHEPL's scale of operations will remain a key rating sensitivity going ahead.

Working Capital Intensive Operations

PHEPL's working capital operations are intensive as evident from Gross Current Asset (GCA) of 318 days as on March 31, 2021, as against 172 days as on March 31 2020. The high GCA days is majorly on account of increase in the inventory levels of 168 days for FY21 compared against 123 days for FY20. This is because the operations of the company are project based and the gestation period is around 12 months due to which the work in progress inventory of the company is high. Subsequently, the debtor days also increased and stood at 114 days for FY21 against 6 days for FY20. This increase was due to delay in shipment of the orders to the customers and hence delay in payments. For FY22, the debtors days stood at 282 days (Provisional). Although the debtors days have increased, almost 80 percent receivables are from Linde India. The creditor days of the company stood at 318 days for FY21 as against 101 days for FY20. For FY22 the creditors days stood at 104 days (Provisional). Despite the high GCA days the average utilization of the working capital limits of the company remained on

the lower side of ~50 percent in last six months ended December 21.

Acuité believes any further elongation in PHEPL's working capital cycle key rating sensitivity.

Rating Sensitivities

Any further decline in the scale of operations.
Any further elongation in working capital cycle.

Material covenants

None

Liquidity position: Adequate

PHEPL has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.9.02 crore in FY21 compared against maturing debt obligations of Rs.2.51 crore over the same period. The cash accruals of the company are estimated to remain around Rs.11.72-11.93 crore during 2022-24 period while its matured debt obligations is estimated to be in the range of Rs.0.03-1.14 crore during the same period. The company reliance on working capital borrowings is also moderate marked by average utilization of working capital limits of ~50 percent during the last six months period ended December 2021. Furthermore, the company maintains unencumbered cash and bank balances of Rs.6.39 crore as on March 31, 2021 and the current ratio also stood moderate at 2.27 times as on March 31, 2021. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals and no major repayments over the medium term.

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 steep decline in company's revenues and profitability or deterioration in company's financial risk profile owing to higher than expected working capital requirements.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	64.28	141.95
PAT	Rs. Cr.	5.61	27.03
PAT Margin	(%)	8.73	19.04
Total Debt/Tangible Net Worth	Times	0.09	0.15
PBDIT/Interest	Times	6.92	14.92

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

CRISIL, vide its press release dated Jan 17, 2022 had denoted the rating of PHILS HEAVY ENGINEERING PRIVATE LIMITED as 'CRISIL B+/STABLE/CRISIL A4; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Dec 2020	Bank Guarantee	Short Term	36.53	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	23.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	6.37	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Packing Credit	Short Term	15.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Bank Guarantee	Short Term	20.60	ACUITE A3+ (Upgraded from ACUITE A3)
	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	3.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
03 Nov 2020	Bank Guarantee	Short Term	20.60	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	6.37	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	23.50	ACUITE A3 (Reaffirmed)
	Packing Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	36.53	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB- Stable (Reaffirmed)
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	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	Short		

	Guarantee	Term	0.58	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	1.82	ACUITE BB+ Stable (Reaffirmed)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	23.80	ACUITE A3+ Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.60	ACUITE A3+ Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB Stable Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.81	ACUITE BBB Stable Reaffirmed
THE ZOROASTRIAN CO-OPERATIVE BANK LIMITED	Not Applicable	Term Loan	Not available	Not available	Not available	1.49	ACUITE BBB Stable Reaffirmed
Canara Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	0.30	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Tanvi Kadam Management Trainee-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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