Press Release
Phils Heavy Engineering Private Limited
August 03, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	67.43	ACUITE BBB | Stable | Reaffirmed	-
Bank Loan Ratings	57.57	-	ACUITE A3+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	125.00	-	-

Rating Rationale
Acuité has reaffirmed the long-term rating of **'ACUITE BBB' (read as ACUITE t riple 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'**.

Rationale for rating reaffirmation
The rating reaffirmation takes into account improvement in PHEPL's operating and financial performance in FY2023 (Provisional) marked by improved operating income, profitability and healthy financial risk profile. The operating income of the company improved to Rs. 74 Cr in FY2023 (Provisional) as against Rs.66 Cr in FY2022. The operating profitability has recorded an uptrend over the last three years as it improved from 16.68 percent in FY2021 to 24.70 percent in FY23 (Prov.). The financial risk profile continues to remain healthy marked by healthy net-worth, low gearing and comfortable debt protection metrics. The rating also draws comfort from company's experienced management with an established track record of operations and its reputed clientele. The rating is however constrained by the company's working capital-intensive nature of operations. Going forward, ability of PHEPL to maintain its scale of operations and profitability margins, while improving and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company
PHEPL incorporated in 1992, is a Mumbai based company 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 started its operations initially as Phils Engineering Corp in 1971. The company has accreditation of QMS-ISO 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 with an established t rack record of operations and reputed clientele
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, 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 from its experienced management with an established track record of operations and its reputed clientele.

Healthy financial risk profile

Financial risk profile of PHEPL is healthy marked by healthy net worth, low gearing and comfortable debt protection metrics. The tangible net worth of the company stood improved at Rs.97 Cr as on 31 March, 2023 (Provisional), as against Rs.86 Cr as on 31 March, 2022, due to accretion to reserves. It also includes the amount of Rs.18 Cr treated as quasi equity since the unsecured loans from directors infused into the business will remain subordinated to bank borrowings. The gearing (debt-equity) stood lower at 0.05 times as on 31 March, 2023 (Provisional), as against 0.07 times as on 31 March, 2022. The gearing of the company is expected to improve further and remain low over the medium term in the absence of any debt-funded capex plans. The total debt of Rs.4 Cr as on 31 March, 2023 (Provisional), consists of long-term bank borrowings of Rs. 1 Cr and short-term bank borrowings of Rs.3 Cr.

The interest coverage ratio and DSCR stood healthy at 8.48 times and 3.17 times for FY2023 (Provisional) as against 6.32 times and 2.46 times for FY2022. The net cash accruals to total debt ratio stood improved at 3.16 times for FY2023 (Provisional) as against 1.54 times for FY2022. The total outside liabilities to tangible net worth stood improved at 0.25 times for FY2023 (Provisional) as against 0.44 times for FY2021. The Debt-EBITDA ratio stood improved at 0.22 times for FY2023 (Provisional) as against 0.44 times for FY2022.

Acuité believes that the financial risk profile of PHEPL will remain healthy over the medium term due to its low debt levels, healthy tangible net worth, and comfortable debt protection metrics.

Improved operating performance

PHEPL reported an increase in its revenue of Rs.74 Cr in FY2023 (Provisional) as against Rs.65 Cr in FY2022 which is a growth of ~12 percent and has achieved this improvement based on its unexecuted order book as of April 2022 of ~Rs.84 Cr. Despite of increase in the overall operating costs, the operating margin of the company stood improved at 24.70 percent in FY2023 (Provisional) as against 18.63 percent in FY2022 on account of increase in the overall scale of revenue achieved during the year which also further led to an improvement in the company's net profit margin which stood improved at 15.18 percent in FY2023 (Provisional) as against 9.69 percent in FY2022.

Going forward, as of July 2023, company has an unexecuted order book of ~Rs.66 Cr which is expected to be executed over the next 1 year. The company received new orders worth ~Rs.30 Cr during Q1 FY2024. The present order book mainly comprises of replacement of certain parts and various other components required for the machineries which are already installed in the existing oil refinery units of the customers. The order values remain volatile on a year-on-year basis as it is completely dependent upon the customers requirement as per their expansion plans if any, of setting up a new refinery unit.

Acuité believes that ability of PHEPL to maintain its scale of operations and profitability will remain a key rating sensitivity factor.

Weaknesses

Working capital intensive operations

The working capital operations of PHEPL are intensive marked by its Gross Current Assets (GCA) of 196 days for FY2023 (Provisional) which stood improved as against 410 days for FY2022. This is due to the inventory and receivables cycle of the company which though remains elongated, however recorded an improvement in FY2023 (Provisional) of 70 days and

96 days as against 133 days and 218 days in FY2022. 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 usually high. The company receives around 35 percent of the advance payments from the customers and the remaining is received upon completing the dispatch of the orders, however considering the high gestation period, the balance receivables also get affected and therefore the debtors cycle remains elongated. Further, the creditors cycle of the company stood improved at 158 days in FY2023 (Provisional) as against 429 days in FY2021 and the average bank limit utilization for 6 months' period ended June 2023 stood at ~47 percent.

Acuité believes that the ability of PHEPL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Rating Sensitivities

- Ability to maintain scale of operations and profitability
- Ability to improve and maintain an efficient working capital cycle

Material covenants

None

Liquidity Position - Adequate

PHEPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.9 Cr to Rs.14 Cr during FY2021 to FY2023 (Provisional) against its debt repayment obligation in the range of Rs.0.21 Cr to Rs.2.51 Cr during the same period. Going forward, the NCA are expected in the range of Rs.13 Cr to Rs.15 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.0.22 Cr to Rs.0.23 Cr during the same period. The working capital operations of the company are intensive marked by its gross current asset (GCA) days of 196 days for FY2023 (Provisional). Current ratio stands at 3.33 times as on 31 March 2023 (Provisional). The company has maintained cash & bank balance of Rs.0.35 Cr in FY2023 (Provisional).

Acuité believes that the liquidity of PHEPL is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that PHEPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations, reputed clientele and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	73.85	65.73
PAT	Rs. Cr.	11.21	6.37
PAT Margin	(%)	15.18	9.69
Total Debt/Tangible Net Worth	Times	0.05	0.07
PBDIT/Interest	Times	8.48	6.32

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

CRISIL, vide its press release dated March 16, 2023 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

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 May 2022	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	0.30	ACUITE BBB | Stable (Reaffirmed)
	Letter of Credit	Short Term	34.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	20.60	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	18.81	ACUITE BBB | Stable (Reaffirmed)
	Bank Guarantee	Short Term	23.80	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB | Stable (Reaffirmed)
	Term Loan	Long Term	1.49	ACUITE BBB | Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A3+ | Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	4.12	ACUITE A3+ | Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.25	ACUITE A3+ | Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BBB | Stable | Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.20	ACUITE A3+ | Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A3+ | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	63.31	ACUITE BBB | Stable | Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.00	ACUITE BBB | Stable | Reaffirmed
THE ZOROASTRIAN CO-OPERATIVE BANK LIMITED	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.12	ACUITE BBB | Stable | Reaffirmed

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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.