

## Press Release

Precitec Precision Machineries Private Limited

February 07, 2019

### Rating Upgraded and Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 9.63 Cr.
<b>Long Term Rating</b>	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE B-/Stable)
<b>Short Term Rating</b>	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) from **ACUITE B-** (read as **ACUITE B minus**) and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.9.63 crore bank facilities of Precitec Precision Machineries Private Limited (PPPL). The outlook is '**Stable**'.

The ratings upgrade factors in significant growth in its revenues, while maintaining moderate financial risk profile and improvement in its working capital management. Its revenues have improved to Rs.11.0 crore in FY2018 against Rs.3.7 crore in FY2017. PPPL has reported revenues of Rs.6.50 crore for nine months through December 2018, and has unexecuted order book of about Rs.10.00 crore providing moderate revenue visibility for the medium term. Its working capital cycle improved with gross current assets (GCA) days of 255 in FY2018 against more than 300 days in the past. However, the ratings are partly constrained by modest scale of operations and working capital intensive nature of operations.

Incorporated in 1978, PPPL, a Bangalore (Karnataka) based company is engaged in manufacture of special purpose machine tools includes CNC machines for metal cutting. PPPL mainly caters to automobile, auto components, power generation and earthmoving equipment sectors.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

##### • Established presence and reputed client base

PPPL is promoted by Mr. H K Sridhara, who has more than five decades of experience in machine tool industry. Currently, the company is led by second generation entrepreneurs, Mr. HS Nikhila and Mr. Ravindra Sridhara. The current promoters have an experience of more than two decades in the machine tools industry. The experienced management helped the company in bagging reputed clientele such as Steel Strips Wheels Limited and Larsen & Toubro Limited, among others. As PPPL being manufacturer of CNC machines, it faces cyclicity in its revenue profile. However, longstanding presence has helped the company in reviving the demand and the revenues. PPPL reported revenues of about Rs.6.50 crore for 9MFY2019, and has an unexecuted order book position of about Rs.10.00 crore for deliverables in the next 3-5 months provides moderate revenue visibility. Acuite believes that PPPL's longstanding presence and relationship with reputed clients are expected to support in improving the business risk profile over the medium term.

## Weaknesses

### • Moderate financial risk profile

The financial risk profile is marked by moderate capital structure and debt protection metrics. The net worth stood modest at Rs.3.40 crore in FY2018 as against Rs.3.17 crore; improved owing to modest accretion to reserves. Low net worth and modest accretions resulted in high gearing at 1.97 times as on March 31, 2018, a significant improvement from 2.70 times as on March 31, 2017. Further, its TOL/TNW stood high at 2.65 times in FY2018 against 3.7 times in FY2017. Moderate net cash accruals resulted in moderate debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 1.67 times and 0.08 times in FY2018. The company's cash accruals are expected in the range of Rs.0.55 -0.75 crore against repayment obligations of Rs.0.76-0.34 crore over the medium term. Acuite believes that the financial risk profile is expected to improve marginally over the medium term in the absence of significant debt-funded capex plans and repayment of term loans.

### • High working capital intensive operations

The company's operations are highly working capital intensive as evident from its high Gross Current Assets (GCA) of 317 days as on March 31, 2018 as against 1126 days as on March 31, 2017. Further, GCA days are expected to be at similar levels due to the time taken for manufacture and staggered deliverables to its clientele. The company maintains 6 months inventory, and offers credit of about two months to its clientele; resulted in receivable days of about 47 as on March 31, 2018 (70 days in FY2017). Working capital intensive operations lead to high utilisation of its working capital limits at about 90 percent over the past six months ended December 2018. Acuite believes that any significant increase in the working capital will have a bearing on the liquidity profile of the company.

### • Modest scale of operations in the highly competitive machine tools industry

The business risk profile is constrained due to presence in the capital goods industry, which is cyclical. Also, the GCA days tend to be high due to order specific nature of manufacturing, long manufacturing cycle constraining the revenues. Despite industry presence of more than four decades, the revenue profile is modest within the industry with revenues are about Rs.10.00 crore. Acuite believes that with the current size of operations, and order book, the revenue profile continues to be modest at similar levels over the medium term. The Indian machine tools industry is highly fragmented and intensely competitive with presence of numerous organised and unorganised manufacturers. The industry faces high competition from the overseas players as well. The competitive intensity is further stressed by influx of second hand /reconditioned imported machineries at cheaper prices mounting pressure on the volumes as well as the margins.

## Liquidity Position:

PPPL's liquidity is weak marked by low accruals vis-à-vis high repayment obligations. It generated cash accruals of Rs.0.24 crore to Rs. 0.44 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.75 crore over the same period. However, to support the liquidity, the promoters' infused unsecured loan of about Rs.0.50 crore during FY2018. Going forward, its cash accruals are estimated in the range of Rs.0.55 - 0.75 crore, against which its repayment obligations are estimated at around Rs.0.35 crore. The current ratio of the company is moderate at 1.31 times as on March 31, 2018. PPPL's operations are working capital intensive which lead to high utilisation of its working capital limits at about 90 percent over the past six months ended December 2018. Acuite believes that the liquidity of the PPPL is likely to improve over the medium term on account of declining levels of repayment obligations and modest accruals.

## Outlook: Stable

Acuite believes that the outlook on PPPL will remain 'Stable' over the medium term on account of its experienced management and reputed clientele. The outlook may be revised to 'Positive' if the company achieves better than expected growth in its revenues while maintaining its profitability margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

**About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	11.01	3.76	7.98
EBITDA	Rs. Cr.	1.32	0.96	1.23
PAT	Rs. Cr.	0.26	0.10	0.00
EBITDA Margin	(%)	12.02	25.57	15.44
PAT Margin	(%)	2.33	2.61	0.02
ROCE	(%)	12.57	8.28	20.10
Total Debt/Tangible Net Worth	Times	1.64	1.93	2.21
PBDIT/Interest	Times	1.67	1.24	1.24
Total Debt/PBDIT	Times	4.17	6.24	5.48
Gross Current Assets (Days)	Days	317	1126	435

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

None

**Any other information**

None

**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
23-Apr-2018	Term Loan	Long Term	1.08	ACUITE B- / Stable (Assigned)
	Term Loan	Long Term	0.72	ACUITE B- / Stable (Assigned)
	Cash Credit	Long Term	3.50	ACUITE B- / Stable (Assigned)
	Letter of Credit	Short Term	0.40	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Assigned)
	Proposed Bank Facility	Short Term	1.93	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.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B+ / Stable (Upgraded from ACUITE B-)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A4 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE B+ / Stable (Upgraded from ACUITE B-)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.06	ACUITE B+ / Stable (Upgraded from ACUITE B-)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.32	ACUITE A4 (Reaffirmed)

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