

Press Release

Precitec Precision Machineries Private Limited

March 13, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and 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 reaffirmation takes into account the established track record of the promoters, reputed client base like Hindustan Aeronautics Limited, Larsen & Toubro Limited, SEC Industries Private Limited, and Government of India, Department of Space, Liquid Propulsion Systems Centre among others. Further reflects sustained EBITDA margin over 12 percent during last two years despite the volatility in the operating income. The ratings, however, are constrained by the intense competition, high working capital intensity and the risks of high inventory on the books.

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's 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 established in 1978 promoted by Mr. H K Sridhara and currently, the company is led by second generation entrepreneurs, Ms. HS Nikhila and Mr. Ravindra Sridhara who have more than two decades in the machine tools industry. The experienced management helped the company in generating healthy relationship with reputed clientele such as Hindustan Aeronautics Limited, Larsen & Toubro Limited, SEC Industries Private Limited, and Government of India, Department of Space, Liquid Propulsion Systems Centre among others.

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

- **Average financial risk profile**

PPPL's financial risk profile is average, marked by a low networth, high gearing and average debt protection metrics. The net worth low stood at Rs.3.45 crore as on March 31, 2019 as against Rs.3.40 crore as on March 31, 2018. Low net worth and modest accretions resulted in high gearing at 1.74 times as on March 31, 2019 as against 1.64 times as on March 31, 2018. Further, its TOL/TNW stood high at 2.78 times in as on March 31, FY2019 against 2.65 times as on March 31, FY2018. The moderate profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.05 percent and 1.53 times, respectively. The company's cash accruals are expected in the range of Rs.0.45 -0.50 crore against repayment obligations of Rs.0.25-0.30 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 500 days for FY2019 as against 317 days for FY2018. 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. Inventory days stood at 439 for FY2019, as against 247 days for FY2018. Debtor days stood at 108 for FY2019 as against 47 days for FY2018. The company maintains high inventory as it has to stock different varieties of products and it procures as and when it is available this lead to high utilisation of its working capital limits at about 98 percent over the past six months ended December 2019. 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, the revenue profile continues to be modest at similar levels over the medium term.

Further 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.

Rating Sensitivity

- Improvement in the scale of operation along with improvement in profitability margins.
- Improvement in working capital cycle.

Material covenants

None

Liquidity Position: Stretched

PPPL's liquidity is stretched marked by low accruals vis-à-vis repayment obligations and high working capital intensity. It generated cash accruals of Rs.0.28 crore to Rs.0.30 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.0.75-0.25 crore over the same period. Going forward, its cash accruals are estimated in the range of Rs.0.50 crore, against which its repayment obligations are estimated at around Rs.0.25 crore for FY2020-22. The current ratio of the company is at 1.21 times as on March 31, 2019. PPPL's operations are highly working capital intensive which lead to high utilisation of its working capital limits at about 98 percent over the past six months ended December 2019. Acuite believes that the liquidity of the PPPL is likely to improve marginally 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	7.53	11.01
PAT	Rs. Cr.	0.11	0.26
PAT Margin	(%)	1.43	2.33
Total Debt/Tangible Net Worth	Times	1.74	1.64
PBDIT/Interest	Times	1.53	1.67

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

None

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>
- 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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Feb-2019	Cash Credit	Long Term	3.50	ACUITE B+ / Stable (Upgraded from ACUITE B-/Stable)
	Letter of credit	Short Term	0.40	ACUITE A4 (Reaffirmation)
	Bank guarantee	Short Term	2.00	ACUITE A4 (Reaffirmation)
	Term loans	Long Term	0.35	ACUITE B+ / Stable (Upgraded from ACUITE B-/Stable)
	Term loans	Long Term	0.06	ACUITE B+ / Stable (Upgraded from ACUITE B-/Stable)
	Proposed Bank Facility	Short Term	3.32	ACUITE A4 (Reaffirmation)
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	4.50	ACUITE B+ / Stable (Reaffirmation)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A4 (Reaffirmation)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmation)
Term loans	24-Sep-15	Not Applicable	25-Aug-20	0.10	ACUITE B+ / Stable (Reaffirmation)
Term loan (DPN)	Not Available	Not Applicable	Not Available	0.06	ACUITE B+ (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.63	ACUITE A4 (Reaffirmation)

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