

Press Release

Precision Operations Systems India Private Limited

June 28, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE BB minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 15.00 crore bank facilities of Precision Operations Systems India Private Limited. The outlook is '**Stable**'.

Precision Operations Systems India Private Limited (POPL) based in Thane (Maharashtra) was incorporated in 1989 by Mr. Kirit Nanani, Mr. Jagdish Purohit and Mr. Rajkumar Pandey. The company is engaged in supplying of security equipments such as metal detectors, bomb detection systems, RDX detectors, bullet-proof equipment, and bomb suits. The company has an approval from Ministry of Defence for supplying such equipments and the company caters to Central Industrial Security Force, Border Security Force, police forces. POSPL deals in around 250 items as per government specifications.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

POSPL was incorporated in 1989 and is engaged in supply of security equipments thereby establishing a track record of more than two decades in the security equipment industry. Acuite believes that the company will sustain its existing business profile on the back of experienced management and established track record of operations over the medium term.

- **Growth in operating income with moderate profitability and moderate order book position**

The company has moderate scale of operations marked by operating income of Rs.34.76 crore in FY2018 (Provisional) as against Rs.30.95 crore in FY2017 and Rs.20.44 crore in FY2016. The profitability is also moderate marked by EBITDA of Rs.4.10 crore in FY2018 (Provisional) as against Rs.3.72 crore in FY2017. The net profit margins stood at 1.98 percent in FY2018 (Provisional) as against 1.85 percent in FY2017. POSPL has reputed customer base such as Government of India, Ministry of Defence, and police forces for all major states in India and Special Operations Groups of Federal and State Governments with an unexecuted order book position of Rs.13.70 crore as on May 2018 which gives future visibility of the revenues over the medium term. Acuite believes that POSPL will sustain the scale of operations along with the profitability margins on the back of moderate order book position.

Weaknesses

- **Average financial risk profile**

The financial risk profile of POSPL is average marked by average debt protection metrics. The tangible net worth stood at Rs.11.19 crore as on 31 March, 2018 (Provisional) as against Rs.10.51 crore as on 31 March, 2017. The gearing (debt-equity) stood at 3.65 times as on 31 March, 2018 (Provisional) (PY: 2.27 times). The total debt of Rs.40.90 crore outstanding as on 31 March, 2018 (Provisional) comprises Rs.15.78 crore as secured loan from the bank, Rs.20.45 crore as unsecured loans from the promoters and Rs.4.67 crore as working capital borrowings from the bank. The interest coverage ratio stood at 1.31 times in FY2018 (Provisional) as against 1.28 times in FY2017. Total outside liabilities to tangible net worth is high at 4.94 times as on 31 March, 2018 (Provisional) as against 3.84 times as on 31 March, 2017. The net cash accruals are average at Rs.0.73 crore in FY2018 (Provisional) as against Rs.0.61 crore in FY2017. Acuite believes that the ability of POSPL to generate adequate cash accruals in order to repay its debt obligation will be crucial.

• Highly working capital intensive operations

The operations of POSPL are highly working capital intensive marked by Gross Current Asset days of 507 in FY2018 (Provisional) as against 402 days in FY2017. This is majorly on account of high inventory holding period of 128 days and large receivables (majority from the government) of 258 days in FY2018 (Provisional). The suppliers are also stretched at 112 days in FY2018 (Provisional), however, improved from 224 days in FY2017. The average bank limit utilisation stood at 88 percent for the last six months ended May 2018. Acuite believes being into security equipments industry the operations are expected to remain working capital intensive. The ability of the company to maintain sufficient funds for the working capital requirement will be key rating sensitivity.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of POSPL to arrive at the rating.

Outlook: Stable

Acuite believes that POSPL will continue to maintain 'Stable' outlook on account of extensive industry experience of its promoters and established relationship with reputed customers. The outlook may be revised to 'Positive' if there is a substantial increase in revenue and profitability margins, or continued improvement in working capital management. The outlook may be revised to 'Negative' in case of a steep decline in profitability margins, or significant deterioration in the capital structure caused most likely by a stretched working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	34.76	30.95	20.44
EBITDA	Rs. Cr.	4.10	3.72	2.23
PAT	Rs. Cr.	0.69	0.57	0.35
EBITDA Margin	(%)	11.80	12.02	10.93
PAT Margin	(%)	1.98	1.85	1.72
ROCE	(%)	9.41	12.26	10.00
Total Debt/Tangible Net Worth	Times	3.65	2.27	1.89
PBDIT/Interest	Times	1.31	1.28	1.31
Total Debt/PBDIT	Times	9.96	6.12	7.08
Gross Current Assets (Days)	Days	507	402	570

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***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	4.00	ACUITE BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A4

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About Acuité Ratings & Research:

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