

## Press Release

### Precision Operations Systems India Private Limited

September 10, 2019

#### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 15.00 Cr.
<b>Long Term Rating</b>	ACUITE B- / Outlook: Stable (Downgraded from ACUITE BB-/Stable)
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

#### Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B-**' (read as **ACUITE B minus**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and reaffirmed the 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 (POSPL). The outlook is '**Stable**'.

The downward revision in the rating is on account of decline in revenue during FY2019 (provisional) coupled with stressed liquidity position on account of deterioration in working capital management as evident from stretched inventory days of 192 in FY2019 (PY: 116 days) and significantly high gross current assets (GCA). GCA stood at 558 days in FY2019 (provisional) (PY: 521 days). GCA mainly constitutes of loans and advances of Rs.13.31 crore extended to related entities. This has led to higher reliance on working capital borrowings evident from almost fully utilised bank limits. However, the ratings factor in the experienced management and long track record of operations and reputed clientele.

Precision Operations Systems India Private Limited (POSPL) based in Thane, Maharashtra was incorporated in the year 1989 by Mr. Kirit Nanani, Mr. Jagdish Purohit and Mr. Rajkumar Pandey. The company is engaged in supplying of security equipment 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 equipment and it caters to Central Industrial Security Force, the Border Security Force, police forces among others. POSPL deals in around 250 items as per government specifications.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

##### • Established track record of operations and experienced management

The company was incorporated in the year 1989 by Mr. Kirit Nanani, Mr. Jagdish Purohit and Mr. Rajkumar Pandey, who have been engaged in same industry for more than two decades. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers of the company include reputed names such as Airport Authority of India, Ministry of Defence (Navy), Police department of Lucknow and Telangana, among others. Further, the company has moderate order book of Rs.37.13 crore executable during FY2020, thus providing revenue visibility over the near term.

Acuité believes that the company will sustain its existing business profile on the back of experienced management and reputed customer profile over the medium term.

##### Weaknesses

##### • Below averages financial risk profile

POSPL's financial risk profile is below average, marked by a modest network, high gearing (debt-to-equity), and below average debt protection measures. POSPL's network has remained modest at around Rs.11.92 crore as on March 31, 2019 (Provisional). The network levels have remained modest due to modest scale of operations and low PAT margins, which has resulted in limited accretion to reserves over last three years through FY2019. Though, the revenues of the company are expected to grow in FY2020 on the back of moderate order book position, the low operating margins

are likely to lead to limited accretion to reserves.

Acuite expects the net worth to remain modest in the range of Rs.13.26 crore – Rs. 15.00 crore over the medium term, in the absence of any equity infusion by the promoters.

#### • Working capital intensive nature of operations

POSPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 558 days as on March 31, 2019 (provisional). The company imports a significant portion of its raw material requirements and therefore maintains an inventory of around 192 days. The company also maintains varieties of finished goods of inventory in order to exhibit the product to customers leading to higher reliance on working capital limits. Further, it allows a credit period of 2-3 months to its customers. POMPL's working capital limits over the last six months' period was fully utilized.

Acuite expects the operations of the company to remain working capital intensive on account of the high inventory levels and extended credit period to the customers.

#### Liquidity Position

POMPL has weak liquidity marked by modest net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.48 crore – Rs. 1.06 crore during the four years through 2016-19 with debt obligations in the range of Rs.0.45 crore over the same period. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 558 in FY2019 (Provisional). The bank limits have been almost fully utilised over the last six months. The current ratio of the company stood moderate at 2.37 times as on March 31, 2019(Provisional).

Acuite believes that the liquidity of the company is likely to remain weak over the medium term on account of highly working capital intensive nature of operation.

#### Outlook: Stable

Acuite believes 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 significant 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	22.73	35.00	30.95
EBITDA	Rs. Cr.	3.63	4.74	3.72
PAT	Rs. Cr.	0.48	1.00	0.57
EBITDA Margin	(%)	15.95	13.54	12.02
PAT Margin	(%)	2.10	2.87	1.85
ROCE	(%)	8.72	11.11	12.25
Total Debt/Tangible Net Worth	Times	2.65	3.66	2.27
PBDIT/Interest	Times	1.18	1.43	1.28
Total Debt/PBDIT	Times	7.47	8.50	6.12
Gross Current Assets (Days)	Days	558	521	398

#### 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-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Jun-2018	Cash Credit	Long Term	4.00	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	11.00	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	4.00	ACUITE B-/Stable (Downgraded from ACUITE BB-/Stable)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A4 (Reaffirmed)

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#### About Acuite Ratings & Research:

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