

Press Release

Precision Operations Systems India Private Limited

November 27, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating to '**ACUITE B-**' (**read as ACUITE B minus**) and 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**'.

Precision Operations Systems India Private Limited (POPL) 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 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, the Border Security Force, police forces. POSPL deals in around 250 items as per government specifications.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations along with experienced management and reputed clientele**

POSPL was incorporated in the year 1989 by Mr. Kirit Nanani, Mr. Jagdish Purohit and Mr. Rajkumar Pandey who have been engaged in the 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 like Airport Authority of India, Ministry of Defence (Navy), and Police department of Lucknow and Telangana amongst others. Further, the company has a moderate order book of Rs.28.22 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

- **Moderate financial risk profile**

The financial risk profile of the company stood below average marked by moderate net worth, average debt protection metrics and coverage indicators. The net worth of the company stood at Rs.12.60 crore as on 31 March, 2020 (provisional) as against Rs.11.94 crore as on 31 March, 2019. The gearing (debt-equity) stood high at 2.28 times as on 31 March, 2020 (provisional) as against 2.64 times as on 31 March, 2019. The total debt of Rs.28.71 crore as on 31 March, 2020 (provisional) mainly comprises of Rs.3.93 crore of working capital borrowings and Rs.10.32 crore of unsecured loans from promoters, group companies and NBFCs. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) which stood at 1.21 times for FY2020 (provisional) as against 1.20 times for FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.02 times in FY2020 (provisional) and 0.02 times in FY2019. Debt to EBITDA stood at 5.67 times for FY2020 (provisional) as against 7.36 times for FY2019.

Acuité believes that the financial risk profile of the company is expected to remain average backed by low net cash accruals and in the absence of any major debt funded capex in near to medium term.

• Working capital intensive operations

The company has working capital intensive nature of operations marked by high Gross Current Assets (GCA) of 463 days as on 31 March, 2020 (provisional) as against 548 days same period last year. The company imports a significant portion of its raw material requirements and therefore maintains an inventory of around 176 days as on 31 March, 2020 (provisional) as the company 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. The company's working capital limits over the last six months period was utilized at an average of 100 per cent ended October, 2020.

Acuité believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

Liquidity position: Poor

The company has poor liquidity position marked by high gross current asset (GCA) days of 463 days in FY2020 (provisional) and high utilized working capital limits. Working capital requirement is funded through bank lines that have been fully utilized in the last six months ended in October, 2020. Further, the company generated low NCA of Rs.0.65 crore as against the maturing debt obligation of Rs.0.67 crores in FY2020 (provisional). The cash accruals of POSPL are estimated to remain around Rs.0.00 - 1.62 crore during 2021-23 while its repayment obligation is estimated to be around Rs.0.67 crore during the same period. The company maintains unencumbered cash and bank balances of Rs.2.68 crore as on March 31, 2020 (prov.). The current ratio stands at 2.25 times as on March 31, 2020 (provisional). Acuite believes that the liquidity of the company is likely to remain poor over the medium term on account working capital intensive operations and high utilization of bank limits.

Rating Sensitivities

- Modest scale of operations with improvement in revenue growth and profitability margins
- Further deterioration in working capital management leading to weak liquidity

Material Covenants

None

Outlook

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	27.91	23.07
PAT	Rs. Cr.	0.63	0.50
PAT Margin	(%)	2.27	2.19
Total Debt/Tangible Net Worth	Times	2.28	2.64
PBDIT/Interest	Times	1.21	1.20

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

Not Applicable

Any other information

None

Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Sep-2019	Cash Credit	Long Term	4.00	ACUITE B-/Stable (Downgraded from ACUITE BB-/Stable)
	Bank Guarantee	Short Term	11.00	ACUITE A4 (Reaffirmed)
28-June-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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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