

Press Release

Advanced Enterprises

September 17, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 7.00 crore bank facilities of Advanced Enterprises. The outlook is '**Stable**'.

Established in 2003, AE is a Haryana-based partnership firm promoted by Mr. Hemant Khera and Mrs. Seema Khera. The firm is engaged in manufacturing of industrial gears and gear boxes. The firm diversified its product line to manufacturing machines for pvc pipes and profiles. The firm has its manufacturing unit located at Bahadurgarh, Haryana with installed capacity of manufacturing 2000 units of gear case per annum and 24 units of pvc pipe machines per annum.. .

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

AE was established by Mr. Hemant Khera in 2003 and has been engaged in manufacturing of industrial gear and gear boxes. The promoter Mr. Hemant Khera and Mrs. Seema Khera possess experience of more than two decades in engineering industry.

Acuité believes that AE will continue to benefit from its experienced management which will help the firm to maintain long standing relations with its customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs. 4.17 crore as on 31 March, 2018 (Provisional) as against Rs. 2.58 crore in the previous year. The gearing stood low at 0.48 times as on 31 March, 2018 (Provisional) as against 0.77 times in the previous year. The total debt of Rs. 1.99 crore includes term loan from bank of Rs. 0.36 crore, working capital borrowings of Rs.1.40 crore and unsecured loan of Rs. 0.23 crore. Interest Coverage Ratio (ICR) stood at 6.94 times in FY2018 (Provisional) as against 5.13 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.71 times as on 31 March, 2018 (Provisional) as against 1.37 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.33 times in FY2018 (Provisional) compared to 0.26 times in FY2017.

Going forward, Acuité believes that the firm's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

Weaknesses

- **Small scale of operations and fluctuating margins**

AE has small scale of operations marked by operating income of Rs.4.28 crore in FY2018 (Provisional) as against Rs. 4.87 crore in FY2017 and Rs.3.76 crore in FY2016. The firm has booked revenue of Rs.2.50 crore for April to August, 2018. Further, with new diversification in product line the firm holds an order book position of Rs. 2.50 crores.

Further, the firm's operating margins have shown a fluctuating trend of 18.12 percent in FY2018 (Provisional) as against 13.05 percent in FY2017 and 15.97 percent in FY2016. The firm reported Profit

after Tax (PAT) margin of 3.48 percent in FY2018 (Provisional) against 3.09 percent in FY2017 and 3.23 percent in FY2016.

Acuité believes the firm's ability to register growth in revenue while maintaining adequate profitability will be key sensitivity factor.

• Working capital intensive operations

The firm's operations are working capital intensive marked by high Gross Current Asset (GCA) of 354 days in FY2018 (Provisional) as compared to 294 days in FY2017. The GCA days are mainly dominated by high inventory holding of 102 days in FY2018 (Provisional) compared to 62 days in FY2017. The collection period stood high at 167 days in FY2018 (Provisional) compared to 211 days in FY2017 on account of major sales taking place in last quarter. Further, working capital is supported by high creditor days of 97 days in FY2018. Average cash credit utilization stood at 90 percent.

Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Outlook: Stable

Acuité believes that AE's outlook will remain 'Stable' and the firm will benefit over the medium term from its experienced management, and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while improving working capital cycle and maintaining profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	4.28	4.87	3.76
EBITDA	Rs. Cr.	0.77	0.64	0.60
PAT	Rs. Cr.	0.15	0.15	0.12
EBITDA Margin	(%)	18.12	13.05	15.97
PAT Margin	(%)	3.48	3.09	3.23
ROCE	(%)	4.86	6.29	12.56
Total Debt/Tangible Net Worth	Times	0.48	0.77	0.73
PBDIT/Interest	Times	6.94	5.13	4.29
Total Debt/PBDIT	Times	2.57	3.11	2.93
Gross Current Assets (Days)	Days	354	291	340

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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	1.50	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.60	ACUITE B+ / Stable
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE B+ / Stable

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About Acuité Ratings & Research:

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