

Press Release

Precision Informatic (M) Private Limited

February 04, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.25.00 Cr bank facilities of Precision Infomatic (M) Private Limited (Precision). The outlook is '**Stable**'.

The rating is reaffirmed taking cognizance of company's steady operational performance and moderate business risk profile supported by its established market position and extensive experience of its promoters and long standing relationship with its leading customers ensuring repeated orders. The ratings also factor in its comfortable financial profile and adequate liquidity position. The rating is constrained by working capital intensive operations and competitive industry.

Precision Infomatic (Madras) Private Limited (Precision) is a Chennai (Tamil Nadu) based company incorporated in June 1996. Precision is promoted by Mr. Mathew Chacko, Mr. Viswanathan Murali and Mr. Thanjavur Govindarajan Ramesh. The company's revenue profile is diversified into Infrastructure Management, System Integration and Biometrics & Internet of things (IoT) services. It has a Pan India presence with 10 branches. Precision has a well-diversified client base comprising of IT companies, Banks, Telecom companies, public sector units, among others.

Analytical Approach

For arriving at the ratings, Acuite has considered the standalone business and financial risk profile of Precision Infomatic (M) Private Limited.

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations**

Incorporated in 1996, Precision's promoters Mr. Mathew Chacko, Mr. Viswanathan Murali and Mr. T G Ramesh are technocrats and having more than two decades of experience in the IT/ITES industry. Over the years the company has developed well-diversified client base comprising of IT companies, Banks, Telecom companies, public sector units among others. Its major clientele includes Vodafone-Idea Ltd, Hewlett Packard Enterprise (India) Private Limited, State Bank of India (SBI), Tech Mahindra, Wipro among others. Further, the revenues are diversified into: infrastructure services (~35 %), system integration (~ 48%) and biometric solutions (~17%). Precision's revenues have declined by 18 per cent from Rs. 157.26 Cr in FY2019 to Rs. 128.71 Cr in FY2020 and for the 9MFY21; the company has earned revenue of Rs. 85 Cr, and is expected to earn revenue of Rs. 130-135 Cr by the end of the current financial year. Acuite believes that promoters' entrepreneurial experience, healthy relations with its clientele is expected to aid in improving its business risk profile over the medium term.

- **Comfortable financial risk profile**

Precision has a comfortable financial risk profile, marked by moderate networth, moderate capital structure and comfortable debt protection metrics. Precision's net worth is moderate at Rs. 29.40 Cr as on 31 March, 2020 vis-à-vis Rs.25.23 Cr as on 31 March, 2019; improvement is owing to accretion to reserves. It's gearing (debt-equity) is healthy at 0.50 times as on March 31, 2020 as against 0.60 times as on March 31, 2019. The

total outside liabilities to total net worth (TOL/TNW) stood moderate at 1.52 times as on March 31, 2020 as against 3.00 times as on March 31, 2019. Its debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) are comfortable at 0.34 times and 4.02 times in FY2020 vis-à-vis 0.29 times and 3.09 times in FY2019, respectively. Acuite believes that in the absence of significant debt-funded capex plans, the financial risk profile continues to be at similar levels over the medium term.

Weaknesses

• Intensive working capital operations

Precision's working capital cycle is high marked by high GCA days in the range of 183-211 days over the last 3 years ending March 31, 2020. The GCA days are marked by high debtor days and low inventory days. The company had debtor and inventory levels of 140 and 21 days as on March 31, 2020 vis-à-vis 166 days and 28 days as on as on March 31, 2020, respectively. These are partially offset by high creditor days. The payable terms stood at 109 days as on March 31, 2020 against 174 days against previous year end. Its bank lines are utilised at 62 percent over the past 6 months ending December, 2020. Acuite expects to remain working capital intensive at similar levels over the medium term on account of high receivable days.

• Vulnerability of profitability to competitive pressures

The intense competition in the IT industry, especially the global landscape with larger peers and uncertainty on account of the evolving visa and immigration legislations in key developed markets are challenges that the industry faces. With rapid evolution of the Indian IT-enabled services sector, competition is intensifying as more companies vie for a share of the outsourcing pie. Precision has to compete with multiple players in most of the verticals within the IT services business. Further, the IT industry is susceptible to risks related to technological changes, competition from substitutes and shifts in customer's preferences. This necessitates continued investments in technology upgradation. Diversification efforts will support mitigation of the technological obsolescence risk. However, the entrepreneurial experience is supporting its operating margins stood range bound between 6.5 percent-7.5 percent over past three years ending fiscal 2020.

Liquidity Position: Adequate

Precision has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. It reported cash accruals of Rs.5.03 Cr in FY2020. Its accruals are expected in the range of Rs.4-6 Cr in FY2021-22 against its repayment obligations of Rs.0.35-0.75 Cr during the same period. The company has intensive working capital operations as marked by moderate Gross Current Asset (GCA) days of 183 in FY2020. Its working capital is supported by its creditors resulted reliance on working capital borrowings is low; the cash credit limit in the company remains utilized at ~62 per cent during the last 6 months period ended December 2020. The current ratio stood at 1.46 times as on 31 March, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals as against its repayment obligations.

Rating sensitivity

- Scaling up of operations, while achieving sustained improvement in operating margins.
- Any deterioration in working capital leading to higher reliance on external borrowings

Outlook: Stable

Acuite believes that Precision will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. 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 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	128.71	157.26
PAT	Rs. Cr.	4.11	3.30
PAT Margin	(%)	3.20	2.10
Total Debt/Tangible Net Worth	Times	0.50	0.60
PBDIT/Interest	Times	4.02	3.99

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

None

Any Material covenants

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.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/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
19-Nov-2019	Cash Credit	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4.00	ACUITE BBB-/Stable (Assigned)
	Bank guarantee	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	4.00	ACUITE A3 (Reaffirmed)
01-Nov-2018	Cash Credit	Long Term	12.00	ACUITE BBB-/Stable (Assigned)
	Bank guarantee	Short Term	2.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	7.00	ACUITE A3 (Assigned)
	Proposed Letter of Credit	Short Term	4.00	ACUITE A3 (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	15.00	ACUITE BBB-/Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Reaffirmed)
Bank* Guarantee/ Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President - Corporate Ratings Tel: 022-4929 4041 aditya.gupta@acuite.in</p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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