

## Press Release

### Prima Telecom Limited

June 25, 2020



### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs.40.00crore
<b>Long Term Rating</b>	ACUITE BBB/ Outlook: Negative (Downgraded from ACUITE BBB+/Stable)
<b>Short Term Rating</b>	ACUITE A3+ (Downgraded from ACUITE A2)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.40.00crore bank facilities of PRIMA TELECOM LIMITED (PTL). The outlook is revised to '**Negative**' from '**Stable**'.

The downgrade in the ratings is on account of significant deterioration in the operating income, steep decline in the profitability, substantial elongation in the working capital position due to rise in the debtors and stretched liquidity with almost full utilization of bank limits. The operating income of the company has declined by around 53.50 percent to Rs.71.46crore (Prov.) in FY2020 as against Rs.153.69crore in FY2019. The operating margin has declined to 3.05 percent (Prov.) in FY2020 as against to 5.73 percent in FY2019. The working capital cycle is around 191 days (Prov.) in FY2020 as against 65 days in FY2019 due to significant increase in the debtor collection period of 295 days (Prov.), inventory holding period of 93 days (Prov.) and credit payment of 197 days (Prov.) as on 31 March, 2020.

Incorporated in the year 1995, PTL is a Delhi based company. The company is a part of the Telecom division of the Suri Group. The company is promoted by Shri. Ramesh Suri, Mrs.Jyotsna Suri, Ms.Shradha Suri and Ms. Deeksha Suri. The Company is engaged in the manufacturing of telecom equipments such as Modem, Multiplexers, converters, UBR Radio and Pre-fab shelters, amongst others.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

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

PTL is promoted by Shri.Ramesh Suri, Mrs.Jyotsna Suri, Ms.Shradha Suri and Ms. Deeksha Suri. The promoters of the company have been engaged in the telecom equipment manufacturing business for more than two decades. Moreover, the promoters are also associated with various entities of Suri Group. Suri Group has diversified businesses in various sectors such as manufacturing of auto-components and telecom equipment, hospitality, education and auto retailer. The Suri Group of companies include Subros Limited, Global Autotech Limited, Rohan Motors Limited, Bharat Hotels Limited (The Lalit) and Fibcom India Limited to name a few. The extensive experience of the promoters has helped in establishing healthy relationships with its customers and suppliers. The key customers of the company include names like Bharti Airtel, Vodafone-Idea, Railtel, ITI Limited, Bharti Infratel amongst other. The suppliers include Cambium Networks Limited, Beijing Huahuan electric Limited to name a

few.

Acuite believes that the company will benefit from the experience of the management and strong relationship with its customers and suppliers.

- **Moderate Financial Risk Profile**

PTL's financial risk profile is moderate, marked by modest net worth, low gearing and moderate debt protection metrics. PTL's net worth is modest estimated at around Rs.36.15crore (Prov.) as on March 31, 2020. The net worth levels have seen improvement over the last three years through FY2020 on account of healthy accretion to reserves during the same period. As on March 31, 2020, the gearing and total outside liabilities to tangible net worth (TOL/TNW) levels stands at 0.55 times (Prov.) and 1.63 times (Prov.) respectively as against to 0.55 times and 1.96 times respectively in FY2019. The company incurred capex of Rs.3.34crore over the last three years to expand its scale of operation, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs.2.55crore. The company on the other hand generated cash accruals of Rs.4.63crore (Prov.) in FY2020 as against Rs.6.17crore in FY2019. PTL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.1.71crore to Rs.4.76crore. The gearing however is expected to be low at around 0.52 times as on March 31, 2021 on back of absence of any major debt funded capex plan. The profitability levels coupled with low debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were moderate at 0.23 times (Prov.) and 3.95 times, respectively.

### **Weaknesses**

- **Working capital management is intensive in nature**

PTL's working capital management is intensive as is reflected by its gross current asset (GCA) days of around 426 days (Prov.) in FY2020 as against 178 days in FY2019. The company has maintained an inventory holding period 93 days (Prov.) as on 31 March, 2020 as against 38 days as on 31 March, 2019 due to delay in the dispatch of the orders due to logistical issue faced by the company with respect to nationwide lockdown. PTL has receivable days of 295 (Prov.) as on 31 March, 2020 as against 121 days as on 31 March, 2019. Irregularity in payment from the customer along with longer payment terms has resulted to accumulated receivables of Rs.57.70crore (Prov.) as on 31 March, 2020. On the other hand, the company has a credit payment of 197 days (Prov.) as on 31 March, 2020 as against 94 days as on 31 March, 2020 which has supported the company to some extent. As a result, the reliance on working capital limit is high, leading to high utilization of its bank line at an average of ~95.22 percent over the last 12 months through March 2020 while its peak utilization is high at around 99.43 percent during the same period. Acuite expects the working capital management to remain intensive over the medium term on account of high inventory and extended credit period offered to its customer.

- **Decline in operating performance**

The revenues of the company declined by around 53.50 percent to Rs.71.46crore (Prov.) during 2019-20, while its operating margins have declined from 5.73 percent in FY2019 to 3.05 percent (Prov.) in FY2020. However, this is partially offset by limited unexecuted order book of Rs.230.92 as on March 31, 2020 which is expected to be executed by March, 2021. Also, the company will be able to improve the margins marginally as it is setting up an exclusive Export Unit in Noida SEZ which will help in reducing the excise duty payable on exports.

Acuite believes that the ability of the company to scale up the operations will remain a key monitor able.

- **Regularity Uncertainty**

The company remains susceptible to adverse impact on its business risk profile owing to any changes in the government policies.

### Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Improvement in the working capital management thereby improving the overall financial risk profile
- Stretch in working capital cycle leading to deterioration in liquidity

### Material Covenants

None

### Liquidity position: Stretched

The company has a slightly stretched liquidity marked by modest net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs.4.63crore (Prov.) in FY2020 as against no maturing debt obligations during the same period. The cash accrual of the company is estimated to remain around Rs.1.71crore to Rs.4.76crore during 2021-23 against no repayment obligations during the same period. The company's working capital operations is intensive marked by the gross current asset (GCA) days of 426 days (Prov.) for FY2020 as against 178 days in FY2019. The average bank limit utilization stood at 95.22 per cent for twelve months ended March, 2020. The company maintains unencumbered cash and bank balances of Rs.3.00crore as on 31 March 2020. The current ratio stands at 1.44 times (Prov.) as on 31 March 2020. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low to moderate net cash accruals to no debt repayments over the medium term.

### Outlook: Negative

Acuite believes that the outlook on PTL is 'Negative' based on the view on telecom industry and continued pressure on the business risk profile of the company over the medium term. The company's ability to secure order to boost its operating income would be a key monitor able along with improvement in the financial risk profile. The outlook may be revised to "Stable", in case of improvement in the liquidity profile and turnover coupled with improved profitability margins.

### About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	71.46	153.69
PAT	Rs. Cr.	3.20	3.96
PAT Margin	(%)	4.48	2.57
Total Debt/Tangible Net Worth	Times	0.55	0.55
PBDIT/Interest	Times	3.95	3.89

### 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-52.htm>
- Entities in Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.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 (Upto last three years)

Date	Name of the Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
April 09, 2019	Cash Credit	Long Term	20.00	ACUITE BBB+/Stable (Assigned)
	Letter of Credit	Long Term	20.00	ACUITE A2 (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	20.00	ACUITE BBB/Negative (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ (Downgraded)

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### About Acuité Ratings & Research:

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