

Press Release

Precision Tapes And Sealants

June 17, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.10.00 crore bank facilities of Precision Tapes And Sealants (PTS). The outlook is '**Stable**'.

Precision Tapes and Sealants (PTS) is a Tamil Nadu based partnership firm established in the year 2002 by Mr. M Muralidharan and Mrs. M. Reena Padmini. It is engaged in manufacturing of XLPE (Cross Linked Polyethylene) and EPE foam (Expanded polyethylene) products. The products manufactured by the company are mainly used in automobile industry, apparel, packaging and civil construction industry among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The firm is in the said line of business since 2002 and managing partner, Mr. Muralidharan and Ms. M Reena possess more than a decade experience in the industry. Top management is supported by well experienced technical and marketing team. The same has reflected in improvement in revenues from Rs.8.75 crore in FY2017 to 17.52 crore in FY2019 (Provisional) on account of increase in orders and client addition. Acuité believes that regular capex to enhance the production capacity and experienced management is expected to support in improvement of its business risk profile over the medium term.

- **Moderate financial risk profile**

Financial risk profile of the firm is moderate marked by comfortable debt protection metrics though partly constrained by high gearing (Debt-Equity) and total outside liabilities to total net worth (TOL/TNW). Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 3.21 times and 0.13 times in FY2019 (Provisional) as against 2.23 times and 0.30 times in FY2018 respectively. Gearing and TOL/TNW are high at 2.22 times and 3.27 times as of March 31, 2019 (Provisional) as against 1.25 and 2.69 times as on 31 March, 2018 respectively; deterioration in the capital structure is owing to debt-funded capex.

The net worth is modest at Rs.2.78 crore as on 31 March, 2019 (Provisional) as against Rs.1.34 crore as on 31 March, 2018. The cash accruals are about Rs.0.79 crore in FY2019 (Provisional) against Rs.0.50 crore in FY2018. In FY2019, the company did a capital expenditure of about Rs.4.3 crore to purchase machinery which was funded mainly through bank loan of Rs.3.26 crore and promoters' contribution of Rs.1.03 crore. Cash accruals are expected at about Rs.1.3-2.2 crore, against the repayment obligations of about Rs.0.5-0.6 crore over the medium term. Acuité believes that with moderate accruals, the financial risk profile is expected to be moderate over the medium term.

Weaknesses

• Modest scale of operations

Revenues of the firm are modest and stood at Rs.8.75 crore in FY2017, Rs.11.74 crore in FY2018 and Rs.17.52 crore in FY2019 (Provisional). Though the firm is enhancing the production capacity, still the revenues are expected to be at modest levels of about Rs. 30-50 crore over the medium term. The ability of the company to improve the scale of operations while maintaining stable profitability would be key rating sensitivity factors over the medium term.

• Moderate working capital cycle

Operations of the firm are moderately working capital intensive marked by moderate gross current asset (GCA) of 124 days for FY 2019 (Provisional) as compared 97 days for FY 2018. This is mainly on account of high debtor cycle which stood at 68 days in FY2019 (Provisional) as against 60 days in FY2018. Inventory days are moderate and increased to 31 days in FY2019 (Provisional) as against 24 days in FY2018. The bank lines utilization stood at about 90 per cent over six months through April 2019. Acuité believes that with modest accruals and business cycle, the operations continue to be working capital intensive over the medium term.

• Highly fragmented and competitive industry

The firm is operating in a highly fragmented and competitive industry with several organised and unorganised players, thus limiting the pricing flexibility and the margins. Further, operating margins are also exposed to raw material price fluctuation risk as raw materials are mainly derived from crude oil and lead to volatile profitability.

Liquidity Position:

PTS has moderate liquidity marked by moderate net cash accruals and moderate working capital intensive operations. The firm reported net cash accruals (NCA) of Rs.0.79 crore in FY2019 (Provisional) as against Rs.0.50 crore in FY2018. Cash accruals are expected at about Rs.1.3-2.20 crore, against the repayment obligations of about Rs.0.5-0.6 crore over the medium term. However, operations are moderately working capital intensive as reflected in high GCA at 124 days in FY2019 which led to high utilisation of its bank lines at about 90 per cent for the last six months through April 2019. The current ratio is weak at 0.96 times as on March 31, 2018. Acuité believes that the liquidity of PTS is likely to remain moderate over the medium term.

Outlook: Stable

Acuité believes that PTS will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook maybe revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins and capital structure. Conversely, the outlook maybe revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure resulting in deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	11.74	8.75	7.41
EBITDA	Rs. Cr.	0.95	0.72	0.64
PAT	Rs. Cr.	0.21	0.11	0.06
EBITDA Margin	(%)	8.09	8.26	8.65
PAT Margin	(%)	1.83	1.31	0.76
ROCE	(%)	22.84	17.71	31.03
Total Debt/Tangible Net Worth	Times	1.25	2.14	3.10
PBDIT/Interest	Times	2.23	2.14	1.94
Total Debt/PBDIT	Times	1.71	2.74	3.07
Gross Current Assets (Days)	Days	97	104	121

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	2.65	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.26	ACUITE BB- / Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.09	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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