

Press Release

Precision Equipments (Chennai) Private Limited

December 26, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.60.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned its 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.60.00 crore bank facilities of Precision Equipments (Chennai) Private Limited (PECPL). The outlook is '**Stable**'.

Chennai based Precision Equipments (Chennai) Private Limited (PECPL) was incorporated in 1998. The company is engaged in design and manufacture of process Equipment such as shell and tube heat exchangers, pressure vessels and Reactors for the Oil, Gas, Petro-Chemical and Fertilizer Industries. The company serves for both project and replacement requirements of process industries. The company is promoted by Mr. Eswaramurthy and Mr. Balasubramanian Prabhu. PECPL has manufacturing unit at Sipcot Industrial Park, Chennai.

Analytical Approach

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

Key Rating Drivers

Strengths

- Long track record of operations**

PECPL has established presence of more than two decades in manufacturing of medium sized to heavy process equipments such as heat exchangers, pressure vessels, reactors for petrochemicals, gas, chemical, and refineries Industries. The promoters, Mr. Eswaramurthy and Mr. Balasubramanian Prabhu have extensive experience in the industry, which has helped the company to develop healthy relations with suppliers and reputed customers such as Indian Oil Corporation Limited, Engineering India Limited, PETROFAC, L&T Hydro Carbon Engineering limited.

Acuite believes that PECPL is likely to continue to benefit from its promoters' extensive experience in the industry.

- Reputed customer and healthy order book position**

PECPL caters to various reputed customers in the petrochemicals, gas, chemical, and refineries Industries namely Indian Oil Corporation Limited, Engineering India Limited, PETROFAC, L&T Hydro Carbon Engineering limited, Hindustan Petroleum Corporation Limited to name few. The company has also caters to foreign companies like M/s. Dangote Petroleum Refinery and Petrochemicals Fze, ExxonMobil Singapore, Petrogulf based out at Qatar. The extensive experience of the promoters is also reflected through the healthy order book position. The company has achieved revenues of Rs.127.30 crore in FY2019. During the current year, the company has achieved revenue of ~ Rs.65 crore till 31 October 19 (provisional). PECPL has total unexecuted order book position of ~Rs.217.77 crore as on October, 2019 to be executed within next two years thereby providing revenue visibility over medium term.

- Above average financial risk profile**

PECPL has above average financial risk profile marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth stood at Rs.22.83 crore as on March 31, 2019, which has witnessed sequential improvement from Rs.16.39 crore as on March 31, 2018. The accretion to net worth was mainly on account of steady operating profitability.

PECPL has followed a conservative financial policy in the past as reflected by its peak gearing of 0.65 times over the last three years through 2017-19. The gearing of the company improved at 0.37 times, as on March 31, 2019. The same is expected to improve on account of no major capex plans. The total outside liabilities to tangible net worth ratio also stood at around 1.40 times as on March 31, 2019. PECPL's total debt of Rs.8.50 crore as on March 31, 2019 includes term loans of Rs.0.37 crore, unsecured loans Rs.3.42 crore and working capital borrowings of Rs.4.71 crore. The interest coverage ratio (ICR) of the company stood healthy at around 3.49 times for FY2019 and the net cash accruals to total debt stood moderate at 0.95 times for FY2019. The debt service coverage ratio (DSCR) stood at 3.02 times for FY2019. The company's annual net cash accruals (PAT + Depreciation) were ~Rs.8.08 crore for FY2019 against which it had annual repayment obligations of ~Rs.0.18 crore.

Acuite believes that PECPL will maintain its financial risk profile on the back of gradual growth in revenue, sustenance of its profitability margins and no major capex plans over the medium term.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive in nature marked by Gross Current Asset (GCA) days of 113 days in FY2019 and 214 in FY 2018. The debtor days stood at 71 for FY2019 as against 108 days for FY2018. As the company executes projects for various government entities, counter party default risk remains minimal. Although, risk associated with delayed payment exists but due to good liasoning and promoter's extensive experience, PECPL has managed to collect some portion as advance and remaining payments within 45-60 days from dispatch of equipment.

Rating Sensitivity

- The company's ability to improve the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile are the key rating sensitivity.

Material Covenants

The company to maintain following financial covenants for FY2019

- DSCR- Minimum 1.20 times
- Interest Coverage Ratio- Minimum 2.00 times
- FACR- Minimum 1.25 times
- Debt/EBIDTA- Maximum 3.6 times

Liquidity Position: Adequate

PECPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.6.59 to Rs.8.08 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.0.18-0.19 crore over the same period. The cash accruals of the company are estimated to remain around Rs.8.81-10.99 crore during 2020-22 while its repayment obligation are estimated to be around Rs. 0.19 crore. The company's operations are working capital intensive due to long gestation period of around 6-10 months as marked by gross current asset (GCA) days of 113 in FY2019. The company maintains unencumbered cash and bank balances of Rs.0.13 crore as on March 31, 2019. The current ratio of the company stand healthy at 1.63 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that PECPL will maintain stable business risk profile on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than expected revenues and improved profitability while improving liquidity position. Conversely, the outlook may be revised to 'Negative' if there is steep decline in company's revenues and profitability or deterioration in company's financial risk profile owing to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	127.30	58.24
PAT	Rs. Cr.	6.80	4.80
PAT Margin	(%)	5.34	8.24
Total Debt/Tangible Net Worth	Times	0.37	0.39
PBDIT/Interest	Times	3.49	3.30

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

*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	6.14	ACUITE BBB- / Stable
Proposed facility	Not Applicable	Not Applicable	Not Applicable	1.36	ACUITE BBB- / Stable
Letter of Credit^	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A3
Bank Guarantee^	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3

#Note- CC includes Sublimit of EPC to the extent of Rs.5 cr.

^LC and BG are interchangeable upto 25%.

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