

Press Release

Precision Equipments (Chennai) Private Limited

July 14, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.50	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	8.15	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	78.65	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.78.65 Cr bank facilities of Precision Equipments (Chennai) Private Limited (PECPL). The outlook is '**Stable**'.

The rating reaffirmation takes into account its long track record of operations, experienced management, moderate financial risk profile and adequate liquidity position marked by adequate cash accruals against repayment obligations. The rating, however, remain constrained on account of intensive working capital cycle.

About the Company

Precision Equipments (Chennai) Private Limited (PECPL), is a Chennai based company established in 1981 and later reconstituted into a private limited company 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 a manufacturing unit at Sipcot Industrial Park, Chennai.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record of operations and experience management

PECPL was established in 1981 and later reconstituted into a private limited company in

1998. The company has an established presence of over 4 decades. The company is promoted by Mr. Eswaramurthy and Mr. Balasubramanian Prabhu, who have extensive experience of 22 years 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. Acuité believes that the company will continue to benefit with the promoter's experience and its established presence in the industry, improving its business risk profile over the medium term.

- **Significant improvement estimated in FY2022**

As per the FY2022 annual provisionals, the company has reported Rs.169.54 Cr of revenue which was 17 percent higher than FY2021, The improvement in revenues is on account of continuous execution of its healthy order book. EBITDA margin stood at 9.90 percent in FY2022(Prov), PAT margins stood at 5.41 percent. Acuité believes that the revenue is expected to improve backed by its moderate order book position and profitability margins are expected to remain stable over the medium term

- **Moderate financial risk profile**

The financial risk profile of the company has remained moderate with moderate capital structure and debt protection metrics. The net worth of the company stood at Rs.35.17 Cr and Rs.28.19 Cr as on March 31, 2021 and 2022 respectively. The gearing of the company has been improving since last three years. It stood at 0.18 times as on March 31, 2021 as against 0.18 times as on March 31, 2020. PECPL'S debt protection metrics are moderate marked by- Interest coverage ratio and debt service coverage ratio stood at 4.32 times and 3.48 times as on March 31, 2021 respectively as against 3.89 times and 3.03 times as on March 31, 2021 respectively. TOL/TNW stood at 1.31 times and 1.40 times as on March 31, 2022 and 2021 respectively. The debt to EBITDA of the company stood at 0.42 times as on March 31, 2021 as against 0.38 times as on 31st March, 2020. Acuité believes that the financial risk profile of PECPL will continue to remain moderate over the medium term in the absence of any major debt-funded capital expenditure.

Weaknesses

- **Intensive working capital cycle**

The company has an intensive working capital cycle marked by Gross current assets (GCA) days at 178 days as on March 31, 2021 as against 244 days as on March 31, 2020. Inventory days stood at 27 days as on March 31, 2021. Subsequently, the payable period stood at 121 days as on March 31, 2021 as against 206 days as on March 31, 2020 respectively. The debtors day stood at 137 days as on March 31, 2021 as against 77 days as on March 31, 2020. Further, the average bank limit utilization in the last twelve months ended June, 22 remained at ~74percent for fund based and 81 percent for non-fund based. Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any large debt-funded capital expenditure, which may adversely impact its capital structure and liquidity
- Any further deterioration in working capital management leading to deterioration in financial risk profile

Material covenants

None

Liquidity Position: Adequate

PECPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.8.67 Cr in FY2021 as against the repayment of Rs.0.18 Cr for the same period and expected to generate cash accruals in the range of Rs.11-14 Cr. against current repayment obligations of Rs.0.18 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.31 Cr as on March 31, 2021. The current ratio of the company stood at 1.44 times as on 31 March, 2021. Acuité believes that PECPL's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

Outlook: Stable

Acuité believes that PECPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and track record of operations. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher-than-expected debt funded capex plan.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	145.13	102.11
PAT	Rs. Cr.	6.99	5.99
PAT Margin	(%)	4.82	5.87
Total Debt/Tangible Net Worth	Times	0.18	0.18
PBDIT/Interest	Times	4.32	3.89

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-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Mar 2021	Bank Guarantee	Short Term	48.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	6.14	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.01	ACUITE BBB- Stable (Reaffirmed)
21 May 2020	Cash Credit	Long Term	6.14	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	2.01	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	39.00	ACUITE A3 (Reaffirmed)
26 Dec 2019	Letter of Credit	Short Term	22.50	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	1.36	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	6.14	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	48.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.14	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.01	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Moparthy Anuradha Devi Analyst-Rating Operations Tel: 022-49294065 moparthy.anuradha@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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