Press Release

Precision Equipments (Chennai) Private Limited

March 16, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.50	ACUITE BBB- | Stable | Reaffirmed	-
Bank Loan Ratings	17.85	-	ACUITE A3 | Assigned
Bank Loan Ratings	72.15	-	ACUITE A3 | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	96.50	-	-

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-' (read as ACUITE t riple 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'.**
Acuité has assigned its short term rating to **'ACUITE A3' (read as ACUITE A three)** on the Rs.17.85 Cr bank facilities of Precision Equipments (Chennai) Private Limited (PECPL).

Rating Rationale

The rating takes into account the improved operating performance and comfortable financial profile of PECPL . The operating income of PECPL has been consistently growing since the last three years from FY2020. The Company's revenue stood at Rs.169.99 Cr in FY2022 as against Rs. 102.11 Cr in FY2020. In 9MFY23 the operating income stood at Rs. 152 Cr and is expected to generate Rs. 185-190 Cr by year end. The operating margins ranged between 9.75-12.28 percent for the last three years ended FY2022. The financial risk profile of PECPL continues to be moderate with comfortable debt protection metrics and low gearing. The overall gearing of the Company stood at 0.36 times as on March 31, 2022 as against 0.18 times as on March 31, 2021. The interest coverage ratio stood at 3.94 times in FY2022 as against 4.32 times in FY2021. 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

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

Key Rating Drivers

Strengths

- **Established t rack 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.

- **Moderate Financial risk profile**

  The financial risk profile of the company is moderate marked by comfortable debt protection metrics and low gearing. The net worth of the company stood at Rs.42.42 Cr and Rs.35.17 Cr as on March 31, 2022 and 2021 respectively. The gearing of the company stood at 0.36 times as on March 31, 2022 as against 0.18 times as on March 31, 2021. PECPL'S debt protection metrics are comfortable marked by– Interest coverage ratio and debt service coverage ratio stood at 3.94 times and 3.03 times as on March 31, 2022 respectively as against 4.32 times and 3.48 times as on March 31, 2021 respectively. TOL/TNW stood at 1.46 times and 1.66 times as on March 31, 2022 and 2021 respectively. The debt to EBITDA of the company stood at 0.91 times as on March 31, 2022 as against 0.42 times as on March 31, 2021. Acuité believes that the financial risk profile of PECPL will continue to remain comfortable 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 170 days as on March 31, 2022 as against 177 days as on March 31, 2021. Inventory days stood at 24 days as on March 31, 2022 as against 27 days as on March 31, 2021. The debtors day stood at 137 days as on March 31, 2022 as against 137 days as on March 31, 2021. The payable period stood at 132 days as on March 31, 2022 as against 121 days as on March 31, 2021 respectively. Further, the average bank limit utilization in the last six months ended February , 23 remained at ~5percent for fund based and 87 percent for non fund based facilities.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any elongation of the working capital cycle leading to deterioration in liquidity position
- Any deterioration of its financial risk profile

Material covenants

None

Liquidity Position: Adequate

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.9.33 Cr in FY2022 as against the repayment of Rs.0.18 Cr for the same period and expected to generate cash accruals in the range of Rs.10-13 Cr. Against nil repayment obligations over the medium term. The working capital cycle of PECPL stood intensive on account of high GCA (Gross Current Asset) days of 170 in FY2022. Unencumbered cash and bank balances stood at Rs. 0.29 Cr as on March 31, 2022. The current ratio of the company stood at 1.77 times as on March 31, 2022. Acuité believes that PECPL's liquidity will remain adequate 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	169.99	145.13
PAT	Rs. Cr.	7.23	6.99
PAT Margin	(%)	4.25	4.82
Total Debt/Tangible Net Worth	Times	0.36	0.18
PBDIT/Interest	Times	3.94	4.32

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
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Jul 2022	Cash Credit	Long Term	6.14	ACUITE BBB- | Stable (Reaffirmed)
	Bank Guarantee	Short Term	48.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	2.01	ACUITE BBB- | Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	49.65	ACUITE A3 | Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.35	ACUITE A3 | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.50	ACUITE BBB- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.50	ACUITE A3 | Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE A3 | Assigned

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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.