



Press Release
Precision Equipments (Chennai) Private Limited
June 13, 2024
Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.50	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	6.50	ACUITE BBB Stable Upgraded	-
Bank Loan Ratings	71.50	-	ACUITE A3+ Assigned
Bank Loan Ratings	90.00	-	ACUITE A3+ Upgraded
Total Outstanding Quantum (Rs. Cr)	171.50	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating to '**ACUITE A3+**' (read as **ACUITE A three Plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.96.50 Cr. bank facilities of Precision Equipments Chennai Private Limited (PECPL). The outlook is '**Stable**'.

Acuite has further assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three Plus**) on the Rs.75.00 Cr. bank facilities of Precision Equipments Chennai Private Limited (PECPL). The outlook is '**Stable**'.

Rationale for upgrade :

The rating upgrade reflects PECPL's experienced management and its established track record of operations of over four decades in the manufacturing of process equipment such as shell and tube heat exchangers, pressure vessels, and reactors for the oil, gas, petrochemical, and fertilizer industries. Further, the healthy business risk profile is supported by a stable scale of operations and a healthy financial risk profile. The company's revenue grew to Rs.187.06 Cr. in FY2023, implying a growth rate of ~10.04 percent against the previous year. Further, the company is estimated to achieve a revenue of Rs.209.34 Cr. in FY2024 with a moderate improvement in operating profit margins to ~11.10 percent in FY2024E, from 10.54percent in FY2023 and 9.75 percent in FY2022. The financial risk profile of the company continues to be healthy, with comfortable debt protection metrics and low gearing levels. The overall gearing of the company stood at 0.22 times as on March 31, 2023, as against 0.36 times as on March 31, 2022. The rating is further supported by the company's healthy order book position of Rs. 493.39 Cr. as on March 31, 2024, reflecting revenue visibility over the medium term.

The rating, however, remains constrained on account of the intensive working capital cycle of the company.

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 the design and manufacture of process equipment such as shell and tube heat exchangers, pressure vessels, and reactors for the oil, gas, petrochemical, and fertilizer industries. The company serves both project and replacement requirements in process industries. The company is promoted by Mr. Eswaramurthy and Mr. Balasubramanian Prabhu. PECPL has a manufacturing unit at Sipcot Industrial Park, Chennai.

Unsupported Rating

Not applicable

Analytical Approach

Acuité 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 had an established presence for over four 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 develop healthy relations with suppliers and reputed customers such as Indian Oil Corporation Limited, Engineering India Limited, PETROFAC, and L&T Hydro Carbon Engineering Limited. Acuité believes that the company will continue to benefit from the promoter's experience and its established presence in the industry, improving its business risk profile over the medium term.

- **Improving scale of operations and healthy order book**

The revenue of the company stood at Rs.187.06 Cr. in FY2023, registering a growth of ~11.91 percent compared to revenue of Rs.169.99 Cr. in FY2022. The growth in operating income in FY2023 driven by healthy inflow of orders. Further, it is estimated to achieve a revenue of Rs. 209.34 Cr in FY2024, and the operating profit margins are estimated to be in the range of 11.05 – 11.10 percent. The company has an unexecuted order book position of Rs.493.39 Cr. as on March 31st, 2024. The company is planning to execute around Rs.300-310 Cr. in FY2025. Acuité believes that the scale of operations will continue to improve over the medium term, backed by a healthy order book position.

- **Healthy financial risk profile**

The financial risk profile of the company is healthy, marked by a moderate net worth, healthy debt protection metrics and low gearing. The net worth of the company stood at Rs.51.08 Cr. and Rs.42.42 Cr. as on March 31, 2023, and 2022 respectively. The improvement is on account of the accumulation of net profit in the reserve. Further, it is estimated that net worth will be ~Rs. 66.65 Cr. in FY2024. The gearing of the company stood at 0.22 times as on March 31, 2023, as against 0.36 times as on March 31, 2022. Further, it is estimated that the gearing will be improving in FY2024. PECPL'S debt protection metrics are healthy, marked by a healthy interest coverage ratio and debt service coverage ratio that stood at 3.16 times and 2.56 times as on March 31, 2023, respectively, as against 3.94 times and 3.03 times as on March 31, 2022, respectively. TOL/TNW stood at 1.21 times and 1.46 times as on March 31, 2023, and 2022 respectively. The debt to EBITDA of the company stood at 0.55 times as on March 31, 2023, as against 0.91 times as on March 31, 2022. Acuité believes that the financial risk profile of PECPL will continue to remain healthy 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 140 days as on March 31, 2023, as against 170 days as on March 31, 2022. However, the GCA days have shown an improvement in FY2023. The reason for the improvement is the improved debtor days in FY2023. Inventory days stood at 47 days as on March 31, 2023, as against 24 days as on March 31, 2022. The debtor day stood at 68 days as on March 31, 2023, as against 137 days as on March 31, 2022. The reason for the improvement in debtor days is on account of prompt payments for both domestic and export sales in Q4 of FY2023. The payable period stood at 91 days as on March 31, 2023, as against 132 days as on March 31, 2022, respectively. Further, the average bank limit utilization in the last six months ended March 24 remained at ~8 percent for fund-based and 75 percent for non-fund-based.

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

Liquidity Position: Adequate

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.10.73 Cr. in FY2023 as against the repayment of Rs.0.24 Cr. for the same period and is further expected to generate cash accruals in the range of Rs.14- 22 Cr. against nil repayment obligations over the medium term. The unencumbered cash and bank balances stood at Rs. 5.77 Cr. as on March 31, 2023. The current ratio of the company stood at 1.59 times as on March 31, 2023. Further, the average bank limit utilization in the last six months ended March, 2023 remained at ~8 percent for fund based and 75 percent for Non- Fund based. 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, long track record of operations and healthy order book position. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability higher than expected, while maintaining healthy financial risk profile and adequate liquidity position. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in working capital cycle or deterioration in its financial risk profile due to higher-than-expected debt funded capex.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	187.06	169.99
PAT	Rs. Cr.	8.67	7.23
PAT Margin	(%)	4.63	4.25
Total Debt/Tangible Net Worth	Times	0.22	0.36
PBDIT/Interest	Times	3.16	3.94

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

In order to inform the investors about complexity of instruments, Acuite 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
16 Mar 2023	Bank Guarantee (BLR)	Short Term	49.65	ACUITE A3 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	10.35	ACUITE A3 (Assigned)
	Cash Credit	Long Term	6.50	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	7.50	ACUITE A3 (Assigned)
14 Jul 2022	Bank Guarantee/Letter of Guarantee	Short Term	48.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	6.14	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A3 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	2.01	ACUITE BBB- Stable (Reaffirmed)
04 Mar 2021	Bank Guarantee (BLR)	Short Term	48.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	6.14	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A3 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	2.01	ACUITE BBB- Stable (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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	60.00	ACUITE A3+ Upgraded (from ACUITE A3)
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A3+ Assigned
RBL Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	46.50	ACUITE A3+ Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.50	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
RBL Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.50	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE A3+ Upgraded (from ACUITE A3)

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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.

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