

Press Release

Promac Engineering Industries Limited

October 19, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	37.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	53.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	90.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the 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. 90.00 crore bank facilities of Promac Engineering Industries Limited (PEIL). The outlook is '**Stable**'.

Rationale of assignment

The rating assigned takes into account the experience of the management and long track record of operations. The rating also considers the healthy financial risk profile and moderate debt protection metrics, moderate order book position and stable profitability despite declining revenue. However, the rating is constrained due to the working capital intensive nature of operations, declining revenue over the past three years through FY2020-2022, marked by ~9 percent de-growth and highly competitive sector thereby limiting PEIL's bargaining power. Going forward, the ability to improve the revenue will be a key rating sensitivity.

About the Company

Bengaluru - based PEIL was incorporated in 1972. The company is promoted and managed by Mr. J Surendra Reddy. The company is engaged in providing single point EPC services including basic engineering, civil construction, erection and commissioning of cement plants. The company also specializes in providing mineral processing and bulk material handling solutions. The company has a unit located in Harholli for manufacturing heavy equipment, executing fabrication work and heat treatment. PEIL is an ISO 9001:2008 certified company.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations:**

Incorporated in 1972, PEIL has a long track record of operations of more than four decades. Further, the Chairman and Managing Director Mr. J Surendra Reddy also has more than four decades of experience in the engineering industry. The company at the time of establishment focused on producing bulk material handling systems. In 1980 the company forayed into manufacture and supply of cement plants. The company has executed cement plant projects for J K Cement Works, Taiheiyo Cement, Government of Republic of Congo and material handling solutions for NTPC, Karnataka Power Corporation Limited, Bharat Heavy Electricals Limited. The company has presence in over 20 countries including Japan, USA, UK, Sudan and Germany.

Acuite believes PEIL will benefit from long presence in the industry and established customer relations over the medium term.

- **Healthy financial risk profile:**

The healthy financial risk profile of the company is marked by healthy net worth, low gearing and moderate debt protection metrics. The net worth of the company as on March 31, 2022 stood at Rs. 120.91 Cr against Rs. 116.02 Cr in the previous year. The total debt of the company stood at Rs. 37.59 Cr as on March 31, 2022 against Rs. 32.58 Cr in the previous year. The debt consists of long term loan Rs. 12.52 Cr (PY 2.05 Cr), unsecured loan (USL) from promoters Rs. 3.68 Cr (PY Rs. 13.05 Cr), and short term debt Rs. 21.39 Cr (PY Rs. 17.47 Cr). The company repaid USL in FY2022 in view of improved collections and moderate internal accruals. Further, increase in long term debt is on account of debt funded capex of Rs. 21-22 Cr; the same shall be funded through aggregate bank loan of Rs. 18.20 Cr (Rs. 12.00 Cr already disbursed) and internal accruals. Despite the debt funded capex the debt to equity as on March 31, 2022 remained modest at 0.31 times. In addition the gearing is expected to remain below 0.50 times in FY2023 and FY2024.

Acuite expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves and stable profitability margins.

- **Moderate order book position:**

The company has unexecuted order book of Rs. 424.39 Cr as on June 30, 2022. The company has acquired two new orders towards supplying coal handling machinery of Rs. 120.00 Cr. This provides moderate revenue visibility over the medium term. However, about 52 percent of the unexecuted order book is concentrated in a single order, further, the project is in its nascent stages of execution. Timely completion of the of the project is a key rating sensitivity. Further, going forward the company expects order worth Rs.800-900 Cr.

Weaknesses

- **Working capital intensive nature of operations:**

The operations of the company are working capital intensive as reflected by gross current assets (GCA) days of 595 in FY2022 as against 764 days in FY2021. The high GCA days is majorly on account of increased high receivable days at 506 and inventory days of 66 in FY2022. Also, GCA days include other current assets consisting of GST receivables. The increase in debtor days can be attributed to delays in site inspection by clients thereby resulting into delayed payments. However, the debtors (incl. retention money) reduced from Rs. 166.70 Cr as on March 31, 2022 to Rs. 144.56 Cr as on June 30, 2022. Despite high GCA days the bank limit utilization stood at 58 percent for the six-month period ended June 2022 due to high creditor days at 315.

- **Declining revenue from operations:**

The revenue of the company has been exhibiting a declining trend. The revenue reduced

from Rs. 181.96 Cr in FY2019 to Rs. 120.77 in FY2022. Despite, the fall in revenue the EBITDA margin stood at 11.14 percent due to fall in raw material prices. However, EBITDA margins are expected to be adversely impacted due to fluctuating raw material prices since the company has limited bargaining over price escalations.

• **Susceptible to industrial construction cyclicalities:**

The slowdown in capex over the past 2 years has increased the competitive intensity. The landscape has been generally dominated by established players. Multiple approvals required in construction projects. Weak economic outlook aggravated by the pandemic has undermined demand for this sector; unfinished projects may encounter delays due to capital constraint/below normal demand forecasts. The sector may face some headwinds in terms of its order book and revenue pick up till the capex cycle sustainably picks up in the domestic and overseas economy.

Rating Sensitivities

- Timely execution of the order book leading to substantial improvement in scale of operations while maintaining profitability margins.
- Stretch in working capital cycle, leading to an increase in working capital borrowings and weakening of financial risk profile and liquidity.

Material covenants

None.

Liquidity: Adequate

The liquidity of the company is adequate, marked by moderate net cash accruals and low debt repayments. Net cash accruals (NCA) and repayment obligation stood at Rs. 7.25 Cr and Rs. 2.87 Cr in FY2022 respectively. Going forward, the NCA is expected to be around Rs. 6.79 Cr and Rs. 8.19 Cr against repayment obligation of Rs. 3.64 Cr in each of FY2023 and FY2024 respectively. Despite high GCA days at 595 marked by high debtor days and moderate inventory days, the bank limit utilization stood moderate at 58 percent for the six month period ended June 2022, on account of high creditor days at 315. Further, the non-fund based limit utilization stood at ~57 percent as of September 2022. Further, the company has unencumbered cash and bank balance of Rs. 0.29 Cr as on March 31, 2022.

Outlook: Stable

Acuité believes that PEIL will maintain a 'Stable' outlook over the medium term due to experience of the promoter's and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than expected revenues and profit margins, leading to further deterioration in working capital.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	120.77	116.53
PAT	Rs. Cr.	5.03	2.91
PAT Margin	(%)	4.16	2.49
Total Debt/Tangible Net Worth	Times	0.31	0.28
PBDIT/Interest	Times	2.72	1.81

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

Brickwork Ratings vide its press release dated 25 May 2022, has classified PEIL as 'Issuer Not Cooperating' and rated 'BWR BB+/Stable/A4+'.

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:

Not applicable.

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 (BLR)	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 Assigned
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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