



**Press Release**  
**PROMAC ENGINEERING INDUSTRIES LIMITED**  
**December 22, 2023**  
**Rating Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	42.00	ACUITE BBB-   Stable   Reaffirmed	-
Bank Loan Ratings	48.00	-	ACUITE A3   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	90.00	-	-

**Rating Rationale**

Acuite has reaffirmed 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 reaffirmation**

The rating reaffirmation takes into account the stable operating and financial performance of the company marked by stable operating income and improved profitability margins. . The operating income stood at Rs.123.83 Cr in FY2023 as against Rs.120.84 Cr in FY2022. The operating margin improved to 16.82 percent in FY2023 from 11.20 percent in FY2022. The PAT margin moderately improved to 5.05 percent in FY2023 as against 4.16 percent in FY2022. The rating also factors the experience of the management and long track record of operations, healthy financial risk profile with moderate debt protection metrics and healthy order book position. However, the rating is constrained due to the working capital intensive nature of operations and susceptible to industrial construction cyclicality. Going forward, the ability to improve the revenue with restricting further elongation of its working capital cycle will be a key rating sensitivity.

**About the Company**

Bengaluru - based Promac Engineering Industries Limited ("promac" or "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. Promac has successfully executed 50+ Cement Projects, 10+ Power Projects, 9 Sponge Iron Projects, 3 Mineral Processing Projects and several other spares and equipment supplies across 4 Continents in 25 Countries

**Unsupported Rating**

Not Applicable

**Analytical Approach**

Acuite has considered the standalone business and financial risk profiles of the Promac Engineering Industries Limited (PEIL) to arrive at this rating.



## **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 power plant projects 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. PEIL collaborates technically with FAMAK S.A. in Poland and Taiheiyo Engineering Corporation (TEC) in Japan.

The operating income of PEIL stood stable over the last three years and reported turnover of Rs.123.83 Cr in FY2023 as against Rs.120.84 Cr in FY2022. However, the EBITDA margin improved to 16.82 percent as on FY2023 as against 11.20 percent as on FY2022. The improvement in the operating margins is driven by reduced input material prices and higher cost efficiencies on account of reduction in wastage. Also, the turnover of the FY2023 majorly consists of civil work services where margins are higher than manufacturing of plants. The service income constituted for 74 percent of the total sales. The PAT margins of the PEIL stood at 5.05 percent in FY2023 as against 4.16 percent in FY2022. As on 30th September 2023, company has reported Rs.40.58 Cr revenue with EBITDA margin of 16.5 percent. 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, 2023 stood at Rs.127.01 Cr against Rs.120.60 Cr in the previous year. The total debt of the company stood at Rs.33.98 Cr as on March 31, 2023 consists of long term loan Rs.8.68 Cr, unsecured loan (USL) from promoters Rs.1.03 Cr, short term debt Rs.21.46 Cr and maturing portion of long term borrowings of Rs.2.81 Cr. Company is planning CAPEX of Rs.33.60 Cr, by raising debt of Rs.25.00 Cr and planning to complete by H1FY2025. The CAPEX is majorly for adding new machineries and corporate office building.

The debt-equity ratio is low and stable for the last three years and stood at 0.27 times as on March 31, 2023 as against 0.31 times as on March 31, 2022. The Debt- EBITDA of the company has improved and stood at 1.61 times as on March 31, 2023 as against 2.57 times as on March 31, 2022. TOL/TNW (Total outside liabilities/Total net worth) has improved and stood at 0.94 times as on 31 March, 2023 against 1.18 times in FY2022. The debt protection metrics of PEIL is moderate with Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.30 times and 1.50 times respectively in FY2023 as against 2.72 and 1.90 times respectively in the previous year.

Acuite believes that the financial risk profile of the PEIL will remain same on the account of debt funded CAPEX in the medium term.

### **Healthy order book position**

The company has unexecuted order book of Rs.456.37 Cr as on 30<sup>th</sup> September 2023. This provides strong revenue visibility over the medium term. However, about 33.33 percent of the unexecuted order book is concentrated in a single order. The company is expecting to receive two additional orders total worth of Rs.250.00- Rs.300 Cr by FY2024.

## **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 501 in FY2023 as against 608 days in FY2022. The high GCA days is majorly on account of increased high receivable days at 382 and inventory days of 77 in FY2023. The increase in debtor days can be attributed to delays in site inspection by clients thereby resulting into delayed payments. However, the debtors also includes retention money of Rs.29.94 Cr in FY2023. Despite high GCA days the bank limit utilization stood moderate at 75 percent for the seven-month period ended September 2022. The Creditor days have

improved in FY2023 as compared to FY2022. However, the creditors days are stretched and stood at 208 days as on March 31, 2023 as against 313 days as on March 31, 2022.

Acuite believes that working capital operations of PEIL will remain same over the medium term due to company operating in the working capital intensive industry.

### **Susceptible to industrial construction cyclicity**

The slowdown in capex over the past three 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.

### **All Covenants**

None

### **Liquidity Position: Adequate**

The liquidity of the company is adequate, marked by sufficient generation of net cash accruals in FY2023 to its maturing debt obligations. It has generated cash accruals in the range of Rs.8.88 – Rs.7.25 Cr during year ending March 31, 2023 as against its long term debt obligations of Rs.2.87 Cr for the same period. Going forward, the NCA is expected to be around Rs. 9.61-12.93 Cr against repayment obligation of Rs. 3.02 Cr over the medium term. Despite high GCA days at 501 days, the bank limit utilization stood moderate at 75.06 percent for the twelve month period ended September 2023. Further, the nonfund based limit utilization stood at 68.48 percent for the 12 months ending September 2023. Further, the company has unencumbered cash and bank balance of Rs. 0.81 Cr as on March 31, 2023.

### **Outlook: Stable**

Acuite 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	123.83	120.84
PAT	Rs. Cr.	6.25	5.03
PAT Margin	(%)	5.05	4.16
Total Debt/Tangible Net Worth	Times	0.27	0.31
PBDIT/Interest	Times	2.30	2.72

### 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>
- 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, 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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Oct 2022	Bank Guarantee	Short Term	7.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	21.00	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	8.00	ACUITE BBB-   Stable (Assigned)
	Proposed Long Term Loan	Long Term	12.00	ACUITE BBB-   Stable (Assigned)

## 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	7.00	ACUITE A3   Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A3   Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE A3   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	8.76	ACUITE BBB-   Stable   Reaffirmed
Canara Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.24	ACUITE BBB-   Stable   Reaffirmed

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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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