

November 25, 2013

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	1.50	SMERA B-/Stable (Assigned)
Bank Guarantee	5.00	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B-' (read as SMERA B Minus)** to the Rs.1.50 crore long-term (fund based) bank facility and '**SMERA A4' (read as SMERA A Four)** to the Rs.5.00 crore short-term (non-fund based) bank facility of Patel Filters Infrastructure (PFI). The outlook is '**Stable**'. The ratings are primarily constrained by firm's small scale of operations, weak liquidity position, receivables recovery risk and customer concentration risk. The ratings are further constrained by the firm's tender-based business and susceptibility to raw material price volatility. However, the ratings are supported by the firm's experienced management, healthy order book position, moderate profit margins and comfortable debt protection metrics.

PFI, established in 2006, is a Gujarat-based partnership firm engaged in undertaking contracts for design, construction, erection, installation and commissioning of water and waste water treatment plants. The firm has a small scale of operations with revenues of Rs.7.54 crore in FY2012-13 (refers to financial year, April 01 to March 31).

PFI has an extended working capital cycle, which stretched from 156 days in FY2011-12 to 238 days in FY2012-13 on account of stretched collections from customers. The firm's collection period extended from 238 days in FY2011-12 to 375 days in FY2012-13. PFI faces significant recovery risk on its receivables of Rs.2.00 crore (~70 per cent of the firm's tangible net worth as on March 31, 2013), which are due from Pratibha Industries Limited since over two years. PFI's average working capital limit utilisation is high at 98.97 per cent during April 2013 to September 2013. The firm's weak liquidity position affected its project execution capability and led to invocation of a performance bank guarantee (given to Pratibha Industries Limited), which was subsequently honoured. PFI settled the related dues in June 2013.

PFI is exposed to customer concentration risk as the firm derived about 50 per cent of its total revenues (in FY2012-13) from Larsen & Toubro Limited. PFI does not maintain a price escalation clause in its contracts. Moreover, the firm's tender-based business restricts pricing flexibility.

Mr. Rameshbhai S. Patel, Partner of PFI, has around 40 years of experience in the water treatment industry. Mr. Akshay R. Patel (son of Mr. Rameshbhai S. Patel), Partner of PFI, has around 15 years of experience in civil construction. PFI has a healthy order book position as on October 23, 2013 with pending orders worth Rs.67.60 crore (around 40 per cent of the orders will be subcontracted), which are likely to be executed by FY2014-15. The firm has maintained operating margins in the range of 7 per cent to 11 per cent and net profit margins in the range of 4 per cent to 5 per cent over

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the last five years. PFI has comfortable debt protection metrics with leverage at 1.11 times as on March 31, 2013 and interest coverage ratio and cash DSCR of 2.17 times and 1.42 times respectively in FY2012-13.

Outlook: Stable

SMERA believes that PFI will continue to benefit over the medium term from its experienced management and healthy order book position. The outlook may be revised to 'Positive' if the firm achieves a sustained growth revenues and profitability along with an improvement in working capital management and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the firm's profitability or in case of further delays in realization from customers and significant deterioration in the firm's capital structure on account of higher-than-expected working capital borrowings.

About the firm

PFI is a Gujarat-based partnership firm established on July 18, 2006 by Mr. Rameshbhai S. Patel, Mr. Akshay R. Patel, Ms. Bhaktiben R. Patel and Ms. Manisha A. Patel. All the partners are actively involved in the business. PFI is engaged in undertaking contracts for designing, construction, erection, installation and commissioning of water and waste treatment plants.

For FY2012-13, PFI reported PAT of Rs.0.33 crore on operating income of Rs.7.54 crore as compared with PAT of Rs.0.73 crore on operating income of Rs.13.37 crore for FY2011-12. The firm's net worth stands at Rs.2.85 crore as on March 31, 2013 as compared with Rs.2.62 crore a year earlier.

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