

December 08, 2014

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

SMERA has reaffirmed ratings of '**SMERA B-**' (read as SMERA single B minus) assigned to the Rs.1.50 crore long-term bank facility and '**SMERA A4**' (read as SMERA A four) assigned to the Rs.5.00 crore short-term bank facility of Patel Filters Infrastructure (PFI). The outlook is '**Stable**'. The ratings remain constrained by the firm's small scale of operations. The ratings are also constrained by the firm's exposure to receivables recovery and customer concentration risks. The ratings note that the firm is highly dependent on tender-based orders. Moreover, the firm's profit margins are susceptible to raw material price volatility. The aforementioned weaknesses are partially offset by the firm's experienced management, moderate order book position and comfortable financial risk profile.

Update

PFI reported lower-than-expected revenue of Rs.10.65 crore in FY2013-14 (refers to financial year, April 01 to March 31), as compared with revenue of Rs.7.62 crore in FY2012-13. The firm registered revenue of Rs.13.14 crore (provisional) during April 2014 to November 2014. PFI's moderate order book position is marked by pending orders of Rs.53.96 crore which are likely to be executed by FY2015-16. The firm's comfortable financial risk profile is reflected in debt-equity ratio of 1.26 times (as on March 31, 2014), interest coverage ratio (ICR) of 2.81 times (in FY2013-14) and debt service coverage ratio (DSCR) of 2.50 times in FY2013-14.

PFI's operating profit margin declined from 9.92 per cent in FY2012-13 to 8.17 per cent in FY2013-14 on account of increase in employee cost. The firm's working capital cycle improved from 238 days in FY2012-13 to 78 days in FY2013-14 on account of reduction in collection period. However, PFI faces significant recovery risk on receivables of Rs.2.47 crore (~81.62 per cent of the firm's tangible net worth as on March 31, 2014) due from Pratibha Industries Limited since two years. PFI's average utilisation of working capital limit is high at 92.12 per cent during April 2014 to November 2014. The firm remains exposed to customer concentration risk arising on account of high dependence on orders received from Larsen & Toubro Limited.

Outlook: Stable

SMERA believes PFI will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers sustained growth revenues and profitability with improvement in working capital management and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in the firm's profitability, or in case of further delays in collection of dues from customers. The outlook may also be adversely affected by significant deterioration in the firm's capital structure on account of higher-than-expected working capital borrowings.

SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

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. PFI undertakes contracts for designing, construction, erection, installation and commissioning of water and waste treatment plants.

For FY2013-14, PFI reported profit after tax (PAT) of Rs.0.48 crore on operating income of Rs.10.65 crore, as compared with PAT of Rs.0.33 crore on operating income of Rs.7.62 crore in FY2012-13. PFI's net worth stood at Rs.3.03 crore as on March 31, 2014, as compared with Rs.2.85 crore a year earlier.

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