



SMERA RATINGS LIMITED

Pollutech Engineering (PE)

Rating Rationale

December 15, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	10.00	SMERA BB+/Stable (Reaffirmed)
Term Loan	5.00	SMERA BB+/Stable (Reaffirmed)

SMERA has reaffirmed the long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) on the Rs.15.00 crore bank facilities of Pollutech Engineering (PE). The outlook is '**Stable**'. The rating is supported by PE's established regional presence in Odisha, strong relationship with Volvo India Private Limited and extensive experience of promoters. The rating is also supported by the firm's moderate financial risk profile. However the rating is constrained by PE's working capital intensive operations in a highly competitive construction equipment industry. PE's business risk profile remains susceptible to economic cyclicalities associated with mining sector in Odisha.

Update

PE reported revenues of Rs.45.12 crore in FY2015, as compared to Rs.49.92 crore in FY2014. However for the period April 2015 to November 2015, the firm has reported revenues of Rs.43.84 crore because of opening of mines in Odisha during the past six months under the amended Mines and Minerals (Development and Regulation) Act, 2015. SMERA expects that the firm is likely to register revenues of Rs.65.76 crore during FY2015-16. The tangible net worth stood at Rs.17.49 crore as on March 31, 2015, as compared with Rs.12.43 crore a year earlier due to infusion of capital by the partners along with retention of profits.

PE's leverage (debt-equity ratio) has improved to 0.67 times as on March 31, 2015 as compared to 1.03 times in the previous year. The firm's interest coverage ratio has marginally improved from 1.81 times in FY2014 (refers to financial year, April 01 to March 31) to 2.04 times in FY2014-15. SMERA believes PE will maintain a comfortable financial risk profile over the medium term.

PE's operations are working capital-intensive. The firm's gross current assets (GCA) are high at 213 days in FY2014-15 mainly on account of stretched collection period of 136 days. PE's average bank limit utilisation is high at ~96 per cent during May 2015 to November 2015.

Rating Sensitivity

- Ability to scale up operations while maintaining stable profitability
- Working capital management and bank limit utilization

Outlook: Stable

SMERA believes that the firm will continue to benefit over the medium term from its established relationship with Volvo India Private Limited, and its promoters' extensive experience in the construction equipment dealership business. The outlook may be revised to 'Positive' if there is a substantial and sustained increase in the firm's revenues and profitability margins, or a substantial

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improvement in its capital structure supported by capital infusion by its promoters. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in profitability margins, or significant deterioration in its capital structure most likely because of a stretch in its working capital cycle or large debt-funded capital expenditure.

About the Firm

Pollutech was established in the year 1990 by Mr. Dilip Tripathi. In the year 2003 the firm entered into an agreement with Volvo India Private Limited (Volvo) for distribution of earthmoving equipment's. Pollutech is the sole dealer of Volvo in the State of Odisha. The firm also undertakes sales of spares and servicing of construction equipment's. Pollutech has six branches-cum-workshops and four onsite service points in Odisha. Pollutech also benefits from its experienced promoter. Mr. Dilip Tripathy has over ~25 years of experience in construction equipment dealership business.

For FY2014-15, PE reported profit after tax (PAT) of Rs.0.62 crore on operating income of Rs.45.12 crore, as compared with PAT of Rs.0.53 crore on operating income of Rs.49.92 crore for FY2013-14. The firm's net worth stood at Rs.17.49 crore as on March 31, 2015, as compared with Rs.12.43 crore a year earlier.

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