March 25, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit *	**4.20**	**SMERA BB/Stable (Assigned)**
Term Loan I	**0.92**	**SMERA BB/Stable (Assigned)**
Term Loan II	**0.02**	**SMERA BB/Stable (Assigned)**
Term Loan III	**0.18**	**SMERA BB/Stable (Assigned)**
Term Loan IV	**0.79**	**SMERA BB/Stable (Assigned)**
Bank Guarantee	**0.10**	**SMERA A4+ (Assigned)**

*****_Includes sublimit of Rs.3.00 crore for Packing Credit_

SMERA has assigned a rating of **'SMERA BB' (read as SMERA double B)** to the Rs.6.12 crore long-term bank facilities and **'SMERA A4+' (read as SMERA A four plus)** to the Rs.0.10 crore short-term bank facility of Precision Autowares Private Limited (PAPL). The outlook is **'Stable'**. The ratings are constrained by the company's small scale of operations and high level of customer concentration. The ratings are also constrained by the susceptibility of the company's profit margins to raw material price volatility and intense competition prevalent in an inherently cyclical auto components industry. However, the ratings derive comfort from the company's long track record of operations, experienced management, reputed clientele, above-average financial risk profile and comfortable liquidity position.

PAPL, incorporated in 1995, is a Gujarat-based company engaged in manufacturing and export of automotive pumps, engine balance assemblies and machined castings for tractors and heavy commercial vehicles (HCVs). PAPL's revenues have grown at a compound annual growth rate (CAGR) of 10.71 per cent during FY2008–09 (refers to financial year, April 01 to March 31) to FY2012–13. The company has small-scale operations reflected in revenues of Rs.18.75 crore in FY2012-13. PAPL is exposed to customer concentration risk as the company derived ~78.43 per cent of its total revenues (in FY2012–13) from five customers.

PAPL's profit margins are susceptible to volatility in raw material (pig iron and mild steel bars) prices. The company faces intense competition from several players in the auto components industry. PAPL is also exposed to the inherent cyclicality in the automobile industry.

PAPL benefits from its experienced management. Mr. P. K. Bharathan and Mr. P. B. Rajmohan, promoters of PAPL, have around three decades of experience in the auto components industry. Mr. S. Kannan, director of operations at PAPL, has around three decades of experience in the auto component industry. PAPL has long-standing relations with various reputed customers, including Mahindra & Mahindra Limited, TATA Motors Limited (CVBU) and New Holland, France.

PAPL's gearing (debt-equity ratio) is low at 0.91 times as on March 31, 2013. The company has comfortable coverage indicators, as reflected in interest coverage ratio of 2.96 times and cash debt-service coverage ratio (DSCR) of 1.19 times in FY2012–13. PAPL's comfortable liquidity position is evidenced by low average utilisation (46.51 per cent) of cash credit limit during August 2013 to January 2014.

Outlook: Stable

SMERA believes PAPL will continue to benefit over the medium term from its experienced management and established association with reputed customers. The outlook may be revised to 'Positive' in case the company registers sustained improvement in profit margins while achieving healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of steep decline in the company's profit margins, or in case of significant deterioration in the company's capital structure on account of larger-than-envisaged debt funded capex.

About the company

PAPL, incorporated in 1995, is a Gujarat-based company engaged in manufacturing and export of automotive pumps, engine balance assemblies and machined castings for tractors and heavy commercial vehicles. PAPL caters to original equipment manufacturers (OEMs) and after market customers.

For FY2012–13, PAPL reported PAT of Rs.0.70 crore on operating income of Rs.18.91 crore, as compared with PAT of Rs.0.82 crore on operating income of Rs.19.64 crore for FY2011–12. The company's net worth stood at Rs.7.06 crore as on March 31, 2013, as compared with Rs.6.37 crore a year earlier.

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