



SMERA RATINGS LIMITED

Chemin Controls and Instrumentation Private Limited (CCIPL)

*Rating
Rationale*

May 05, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	0.64	SMERA BB/Stable (Assigned)
Cash Credit	3.50	SMERA BB/Stable (Assigned)
Bank Guarantee	7.50	SMERA A4+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB**' (read as **SMERA double B**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.11.64 crore bank facilities of Chemin Controls and Instrumentation Private Limited (CCIPL). The outlook is '**Stable**'. The ratings are constrained by the company's stagnant revenue growth, project-based business and working capital-intensive operations. The ratings are also constrained by the company's exposure to customer concentration risk amidst slowdown in the capital goods industry. However, the ratings are supported by the company's moderate financial risk profile, healthy order book position and experienced management. The ratings are also supported by improvement in the company's profit margins during FY2009-10 (refers to financial year, April 01 to March 31) to FY2012-13.

CCIPL, incorporated in 1981, is a Puducherry-based company engaged in undertaking turnkey instrumentation and electrical projects. CCIPL's revenues have remained stagnant during FY2010-11 to FY2012-13 on account of weak order flow resulting from delays in commissioning of power plant projects.

CCIPL is largely dependent on orders received from government entities. The company is thus exposed to the risk of project delays, which may adversely affect revenue visibility and profitability. Further, CCIPL also faces intense competition while bidding for tenders.

CCIPL is exposed to customer concentration risk as the company derives ~38 per cent of its total income from Bharat Heavy Electricals Limited (BHEL). However, the aforementioned risk is mitigated by the company's long-standing association with BHEL.

CCIPL has a stretched liquidity position arising from an extended receivables period. The company's liquidity is also constrained on account of retention money and security deposits placed during project execution period. CCIPL's average utilisation of working capital limit was 88 per cent during the six months ended February 2014.

CCIPL's moderate financial risk profile is marked by overall gearing (debt-to-equity) ratio of 1.17 times as on March 31, 2013. The company has healthy coverage indicators, as reflected in interest coverage ratio of 3.58 times and cash debt service coverage ratio (CDSCR) of 1.97 times in FY2012-13. CCIPL has a low net worth base; however, the company's net worth has increased during the period under study and stands at Rs.5.20 crore as on March 31, 2013. CCIPL's operating profit

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margin increased from 7.67 per cent in FY2010–11 to 11.80 per cent in FY2012–13 on account of reduction in subcontracting charges (due to installation of machinery) and efficient cost management.

The company has a healthy order book position reflected in outstanding orders of Rs.32.42 crore (as on February 28, 2014), which are likely to be executed by March 2015. CCIPL benefits from its experienced management. Mr. P. Rangaraj, founder and managing director of CCIPL, is an engineer with around four decades of experience in the company's line of business. Mr. R. Ragu (son of Mr. P. Rangaraj) has around 10 years of experience in the company's line of business.

Outlook: Stable

SMERA believes that CCIPL will maintain a stable business risk profile in the medium term. The company will continue to benefit from its experienced management and established relations with customers and suppliers. However, the company's ability to scale up its operations while maintaining comfortable profit margins and achieving efficient working capital management is a key rating sensitivity.

About the company

CCIPL, incorporated in 2004, is a Puducherry-based company, established to take over the running businesses of Chemin Consulting Engineers (established in 1981), Chemin Controls, Peruson & Chemin (established in 1987) and Chemin Institute of Instrumentation Management (established in 1999).

CCIPL is engaged in undertaking turnkey instrumentation and electrical projects. The company also provides services for erection and commissioning of control systems. Further, CCIPL undertakes designing and manufacturing of electrification control panels. The company sells its products under the brand name 'Synonymous'. CCIPL is accredited with ISO 9001:2008, ISO 14001:2004 and BS OHSAS 18001:2007 certifications. The company has a manufacturing unit in Puducherry, Tamil Nadu.

For FY2012–13, CCIPL reported PAT of Rs.1.41 crore on operating income of Rs. 28.43 crore, as compared with PAT of Rs.1.19 crore on operating income of Rs.28.33 crore for FY2011–12. The company's net worth stood at Rs.5.20 crore as on March 31, 2013, as compared with Rs.3.79 crore a year earlier.

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