Omnitech Engineering

April 01, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17.90	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	14.22	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Assigned
Total Facilities	32.12 (Rs. Thirty-Two Crore and Twelve Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Omnitech Engineering (Omnitech) derives strength from long experience of its partners in the precision components manufacturing industry, established operations with continuous addition of new machines, reputed customer base along with geographically diversified revenue profile, healthy profitability margins, and comfortable capital structure and debt coverage indicators.

The ratings are, however, constrained due to its modest scale of operations, elongated operating cycle and partnership nature of its constitution. The ratings are also constrained due to susceptibility of profit margins to volatility in foreign exchange. CARE also take cognizance of firm availing moratorium for the period of March-August 2020 on the interest and principal repayment obligations of its term loan and cash credit accounts granted by its lenders as a Covid relief measure, as permitted by the Reserve Bank of India.

Rating Sensitivities

Positive Factors

- Significant growth in its scale of operations marked by total operating income over Rs.100 crore while maintaining healthy PBILDT margin of more than 25% on a sustained basis.
- Improvement in its capital structure with overall gearing below 0.50 times and total debt to GCA below 1.50 times on sustained basis.

Negative Factors

- Deterioration in its overall gearing above 1.00 times on sustained basis.
- Deterioration in its profitability margins marked by PBILDT of below 15% on a sustained basis.
- Elongation of operating cycle beyond 180 days

Detailed description of the key rating drivers

Key Rating Strengths

Long experience of partners in the precision components manufacturing industry

Omnitech had been formed by Udaybhai A. Parekh and Kinneriben U. Parekh. Mr. Udaybhai A. Parekh have around two-decade year long experience in the precision components manufacturing industry. Mr. Udaybhai A. Parekh is the managing partner and CEO of the firm. He is well assisted by his brother-in-law Mr. Paras Parekh, who is the COO of the firm and both of them look after overall administration and day-to-day operations of the firm.

Established operations with continuous addition of new machines

The firm has established operations with track record of more than a decade. The firm is engaged in manufacturing of turned and machined parts like cylinder liner, piston, gear box, shafts, connecting rod etc. which are precision engineering products/parts catering to various industries. Its manufacturing facility and processes are accredited with various certification viz. ISO 9001:2015 (Quality Management Systems), ISO 14001:2015 (Environmental Management Systems), ISO 45001:2018: (Occupational health & safety management systems) and IATF 16949 (International standards for Automotive quality management systems). Omnitech has star house export certification as well and receives various benefits.

Over the years Omnitech had added various type of CNC, VMC and Gear Shaper machines to strengthen its capability to manufacture precision parts as per customer specifications. It also has inhouse testing capability. In FY20, the firm had completed project of installation of 16 VMC machines which were imported by the firm from Japan and Germany with

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

project outlay of Rs. 11.78 crore funded by term loan of Rs. 9.00 crore and the balance from internal accruals. It got operational from March-2020 onwards. Furthermore, firm has also planned addition of another 11 Vertical Maching Centres (VMC) machines with an estimated project cost of around Rs. 9.48 crore. The capex is expected to become operational by June-2021.

Reputed customer base along with geographically diversified revenue profile

Omnitech is primarily engaged in exports of the precision components and 76% of its Total Operating Income came from exports in FY20 (71% in FY19 and 68% in FY18). The exports of the firm constitute majority of its clients in USA and EU region. The firm also has one warehouse in USA to reduce the lead time to its customers.

The firm primarily caters directly to the requirements of the Original Equipment Manufacturer (OEMs). Omnitech has reputed customer base due to its specialized products, precision and various accreditations and product quality and thereby commands healthy profitability. The customer concentration of the firm stood moderate marked by top 10 customers forming 60% of the total income in FY20 (60% in FY19 and 54% in FY18).

Healthy profitability and return ratios

The firm PBILDT margin had shown improving trend and was healthy at 23.48% in FY20 as against 22.97% in FY19. Improvement in margins were primarily due to addition of new products and increased portion of exports. In addition to this, the firm had cut its cost on various levels resulting in better margins. Return ratio also remained healthy with ROCE and RONW of over 20% in last 3 years.

Comfortable capital structure and debt coverage indicators

Debt equity ratio and overall gearing ratio of Omnitech stood comfortable at 0.52x (0.62x as on March 31, 2019) and 0.83x (1.05 as on March 31, 2019) respectively as on March 31, 2020 (A). The same had improved despite debt funded capex on back of capital infusion by partners and healthy accretions to its net worth base. Furthermore, out of total debt of Rs.24.73 crore as on March 31, 2020, Rs.6.62 crore is unsecured loans from promoters and relatives (26.77% of total debt), which has been treated as debt.

The debt coverage indicators of Omnitech also remained comfortable marked by PBILDT Interest coverage ratio of 9.14 times (FY19: 6.75 times and FY18: 5.92 times) and TDGCA of 2.72 years as on March 31, 2020 (2.41 years as on March 31, 2019 and 3.37 years as on March 31, 2018).

Key Rating Weaknesses

Modest scale of operations

Omnitech TOI grew by healthy CAGR of 6.72% in past 3 years ended FY20 to Rs. 59.38 crore. In 9MFY21, firm had reported TOI of Rs.44.27 crore. However, scale of operation remains modest with TOI of Rs.59.38 crore in FY20 and networth base of Rs.29.64 crore as on March 31, 2020.

Impact of Covid-19 on Omnitech

In the purview of Covid-19 induced lockdown, the plant of Omnitech remained closed for around 25 days starting from March 23, 2020. However, the firm received permission from the government to resume operations from April 17, 2020 as the firm was also engaged in manufacturing of essential items such as parts of ventilators. The firm had availed moratorium under the Covid-19 facility for the period of March-August 2020 as granted by banker on interest and principal repayments of its term loan and cash credit accounts. Same had been regularized from September-2020 and had been confirmed by the banker. Also. firm has availed Rs. 2.05 crore as WCTL (under Covid-19 Emergency Credit Line) and Rs. 0.90 crore as WCDL to support the increasing working capital requirement. Also, as per provisional results, during 9MFY21, Omnitech registered net sales of Rs. 44.27 crore reflecting stable operations despite Covid induced disruptions.

Partnership nature of its constitution

The constitution as a partnership firm restricts Omnitech’s overall financial flexibility in terms of limited access to external funds. Further, there is inherent risk of possibility of withdrawal of capital from the firm. However, partners have been infusing funds into the firm while ploughing back the profit and remuneration to support the growth of the firm. There had not been any instance of withdrawal of capital by partners in last three years ended FY20.

Elongated operating cycle

The firm is engaged in making of precision components of various sizes, types, specifications catering to various industries. This leads it to maintain inventory and spare parts leading to high inventory days. Since the products of the firm are precision products, it sometimes takes times for the customers to examine the same which delays the payment process. The firm provides a clean credit to its customers for around 60-90 days. The manufacturing lead time of the firm is around 4-5 weeks. Thus, its Gross Current Asset days stood elongated at 175-200 days. Payment to creditors vary from 70-90 days. Overall, its working capital cycle stood at 99 days in FY20 which increased from 57 days in FY19 due to increase in inventory levels to meet customer demand. The increase in the inventory levels of the firm can be primarily attributed to its efforts of reducing the delivery time to its customers while maintaining adequate raw material to ensure supply. Furthermore, as articulated by management, firm is developing new products for various customers to enter into new segments which necessitates the requirement of higher level of raw material. It supported better sales realization and consequently healthy profitability.

Susceptibility of profit margins to foreign exchange fluctuation

Firm derives 76% of revenue from export market with limited imports and enter into forward contract as per market conditions which resulted in forex gain/loss in past. During FY20, firm reported forex gain of Rs.1.25 crore. Thus, its profitability is susceptible to any adverse fluctuations in forex rates.

The firm's key raw material consists of bar-stocks made of steel and alloys whose prices are volatile in nature. Also, the orders are received on monthly and quarterly basis which are of fixed prices in nature expositing its profitability to volatility associated with raw material prices. But, as articulated by management, Omnitech has price variation clause with all of its customers limiting its risk to volatility in raw material prices.

Liquidity – Adequate

Omnitech has adequate liquidity marked by healthy cash accruals of Rs.11-13 crore vis-à-vis moderate repayment obligations of around Rs.4-5 crore, moderate liquidity ratios and working capital limit utilization. The current ratio and the quick ratio both stood moderate at 1.39 times and 0.97 times respectively as on March 31, 2020. Also, firm's average fund based working capital utilization remained moderate at 77% for past 12 months ended January 2021.

However, operating cycle remained long at 99 days in FY20 (57 days in FY19). Omnitech had low cash and bank balance of Rs. 0.06 crore as on December 31, 2020 (Rs. 0.08 crore as on March 31, 2020). In addition to this, the firm had availed a working capital term loan under the covid-19 emergency credit line amounting to Rs. 2.05 crore to support its working capital requirements.

Analytical Approach: Standalone

Applicable criteria:

Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Firm

Omnitech Engineering is promoted by Mr. Uday A. Parekh and Mrs. Kinneriben U. Parekh which started operations in 2006. The firm is engaged in manufacturing of turned and machined parts which are precision engineering products catering to various industries like Oil & Gas Industries, power industries, Agriculture & earth moving equipment, Hydraulic industries, Airport ground support equipment, automation industries, Valve industries. These are customized products/parts which are manufactured as per customer specifications from Stainless Steel & alloy bars, forging and casting products. It has presence in India as well as export market (around 15 countries). The firm is also undertaking a project to increase its capacity by addition of 11 Vertical Maching Centres (VMC) with project cost of Rs.9.48 crore to be completed by June 2021.

Brief Financials of Omnitech (in Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	61.22	59.38
PBILDT	14.06	13.94
PAT	5.46	5.90
Overall gearing (times)	1.05	0.83
PBILDT Interest coverage (times)	6.75	9.14

A: Audited

As per provisional results, during 9MFY21, Omnitech registered net sales of Rs. 44.27 crore.

Status of non-cooperation with previous CRA: Nil
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
Covenants of rated instrument/facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	November-2025	17.90	CARE BBB-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	14.22	CARE BBB-; Stable / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	17.90	CARE BBB-; Stable	-	-	-	-
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	14.22	CARE BBB-; Stable / CARE A3	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification.*

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