Zenith Precision Private Limited

February 16, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	25.69	CARE D; ISSUER NOT COOPERATING* (Single D ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**25.69 (Rs. Twenty-Five Crore and Sixty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from of Zenith Precision Private Limited (ZPPL) to monitor the rating(s) vide e-mail communications December 10, 2020 to February 02, 2021 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating. The rating on Zenith Precision Private Limited bank facilities will now be denoted as CARE D; ISSUER NOT COOPERATING.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

Detailed description of the key rating drivers

At the time of last press release dated February 28, 2020 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

On-going delays in debt service obligations

As per the bank statements analysis, there are penal charges debited to term loan due to delay in repayment of principal and interest due to stretched liquidity position.

Small scale of operations albeit to growth

The scale operations marked by the total operating income has grown by 25.04% although stood small at Rs. 42.50 crore in FY19. The growth in TOI is due to favourable marked condition for aerospace industry coupled with repeated order from existing customers and addition of new customers during the year. Further, ZPPL has registered the total operating income of Rs. 40.34 crore for 10MFY20 (prov.).

Financial risk profile marked by the declined profitability margin, leveraged capital structure and weak debt coverage indicators

Profitability: The PBILDT margin has declined by 414 bps, however, stood satisfactory at 11.63% in FY19 as compared to 15.77% in FY18. The decline in the PBILDT margin due to volatility in the raw material prices (steel & iron) coupled with y-o-y increase in variable overhead like employee cost, power & fuel and selling and distribution cost. Further, PAT margin has declined by 183 bps and stood thin at 0.34% in FY19 as compared to 2.17% in FY18 on back of decline in PBILDT in absolute amount coupled with increase in depreciation cost on account of increased fixed assets during the year.

Gearing: The capital structure marked by the overall gearing ratio deteriorated and stood leveraged at 2.28x as on March 31, 2019 as compared to 2.01x as on March 31, 2018 due to increase in total debt for purchase of plant & machinery and high working capital utilization levels during the year. The debt profile of company constitutes of term loan of Rs. 18.11 crore, working capital borrowings of Rs. 18.08 crore and interest free unsecured loans of Rs. 1.52 crore as against tangible net worth of Rs. 16.57 crore as on March 31, 2019.

Coverage Indicators: The debt coverage indicators marked by the PBILDT interest coverage ratio stood at satisfactory at 2.52x in FY19 as compared to 1.89x in FY18 due to decline in the finance cost during the year. However, the total debt to GCA stood week at 16.06x in FY19 as compared to 14.99x due to increased debt levels. Further, the total debt to CFO stood week at 15.96x as on March 31, 2019 due to decline the net profit coupled with absolute amount of increase in inventory levels and trade receivables as on March 31, 2019.

Working capital intensive nature of operations

The operating cycle of ZPPL stood elongated despite of improvement from 243 days in FY18 to 180 days in FY19. This is due to realization of receivables and marginal improvement in inventory holding period from 207 days in FY18 to 173 days due to fast movement of finished goods on back of favourable market condition. The processing of the orders takes

10-12 weeks during the period most of raw material, semi-finished products remains in the manufacturing process resulting high inventory levels. Further, the company receives the credit period of 30-60 days and allows same credit period to its customers. To meet the working capital gap ZPPL relays upon the working capital borrowings which resulted in high utilization of ~95% during last one year ended January 2020.

Highly fragmented industry with intensive competition from large number of players and vulnerability of profits to raw material price movement and foreign exchange fluctuations

ZPPL faces stiff competition in the precision business from large number of established and unorganized players in the market. Competition gets strong with the presence of unorganized players leading to pricing pressures.

Further, the major raw material for manufacturing of precision tool components is steel which is highly susceptible to price fluctuations. Since the raw material is one of the major cost drivers (consisting around 25% of the total operating income), the profitability margins of the company is suspect to input price fluctuations. Though the prices of the finished goods move in tandem with raw material prices, there is a time lag which exposes the firm to volatility risk.

Key Rating Strengths

Long track record of operations with experienced promoters in the precision tool industry

ZPPL was incorporated in 1986 and has been manufacturing of precision components business since then. It has established a long track record of operation which enables the company to bag repeat orders from its existing customers and acquire new customers.

Mr Deepak Pinto, Managing Director of the company has over 2 decades of experience business of machining. A graduate in MS IE from Texas Tech, USA, he has worked in the United States before returning to India to take the family business. His experience in USA helped the company in establishing the customer base there.

The Executive Director, Ms Anaheeta Pinto has over decade experience in the business. She has a BA (Hons) degree and has worked as advertising senior. She has guided Zenith's corporate communications and marketing strategy which has been key to the development of their new business.

Reputed and established customer base

Due to long track record of operations, the company has established customer base such as Bosch Limited, GE Transportation Systems, USA, Goodrich Aerospace Services Private Limited, Goodrich Aircraft Interior Products, Volvo India Private Limited, Wipro Enterprises Limited among others. Strong business relationship with these customers has enabled the company to get repetitive orders from these customers.

Diversified revenue streams

The products manufactured by the company find its application in automotive, locomotive, medical components and aero-space industries. The company gets about 65% of the revenue from sale of aerospace components while the rest 35% of the revenue is generated from sale on non-aerospace components to other industries. About 86% of the sales are exports and deemed exports. The components are exported to USA.

Favourable demand outlook of precision tool and aerospace industry

The Indian economy has witnessed phenomenal growth in the last decade emerging as a global manufacturing hub. There exists ample opportunities in high technology oriented Aerospace, Locomotive, Power and general engineering sectors. With the current "Make in India" initiative, growth prospects are very positive. Thus, it is imperative for ZPPL to maintain quality of its products and increase its scale of production while upgrading its technologies to benefit from the industry growth.

Analytical approach: Standalone

Applicable criteria

Policy in respect of Non-cooperation by issuer
Definition of Default
Financial Ratios – Non financial Sector
CARE's Rating Methodology- Manufacturing Companies

About the Company

Bangalore based Zenith Precision Private Limited (ZPPL) was incorporated in 1986 as a Private Limited Company by Mr J.F.Pinto. The company is engaged in the manufacturing of precision components and sub-assemblies which find application in variety of industries such as locomotive, automobile, medical components and aerospace industries. The company has three manufacturing units located in the suburbs of Bangalore of which 2 units manufacture aerospace components. The company has diversified revenue base with majority of sales (about 90%) being exports (to USA) and deemed exports. It procures its raw materials domestically from Karnataka. Currently, Mr. Deepak Pinto, the Managing Director of the company looks after the day to day operations.

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	A	A
Total operating income	33.99	42.50
PBILDT	5.36	4.94
PAT	0.74	0.14
Overall gearing (times)	2.01	2.28
Interest coverage (times)	1.89	2.52

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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	-	-	March 2025	7.29	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	August, 2022	0.50	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	-	1.96#	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Working capital Term Loan	-	-	March 2021	0.94	CARE D; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on best available information*

#Proposed

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	7.29	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D (28-Feb-20)	1)CARE BB-; Stable (26-Nov-18)	-
2.	Fund-based - LT-Term Loan	LT	0.50	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D (28-Feb-20)	1)CARE BB-; Stable (26-Nov-18)	-
3.	Fund-based - LT-Term Loan	LT	1.96	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D (28-Feb-20)	1)CARE BB-; Stable (26-Nov-18)	-
4.	Fund-based - LT-Cash Credit	LT	15.00	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D (28-Feb-20)	1)CARE BB-; Stable (26-Nov-18)	-
5.	Fund-based - LT-Working capital Term Loan	LT	0.94	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D (28-Feb-20)	1)CARE BB-; Stable (26-Nov-18)	-

**Issuer did not cooperate; based on best available information*

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-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT-Working capital Term Loan	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 clarifications*

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