Patliputra Equipments Private Limited

December 27, 2019

Rating

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	17.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Facilities	17.00 (Rs. Seventeen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Patliputra Equipments Private Limited (PEPL) continues to draw strength from the long track record of the company in construction equipment dealership and comfortable capital structure and debt coverage indicators with moderate operating margins. The rating also factors in the stable financial performance in FY19 (refers to the period April 1 to March 31) and H1FY20 along with growth in scale of operation.

The rating is, however, constrained by the working capital intensive nature of operation, supplier and geographical concentration risk along with pricing constraints as well as competition from various other construction equipment dealers.

Rating Sensitivities

Positive Factors

- Sustaining the increase in the scale of operations
- Maintaining operating profit margin at around 3%.
- Improvement in overall gearing to less than 0.5x on a sustained basis.

Negative Factors

- Increase in overall gearing beyond unity.
- Deterioration in PBILDT margin below 2%.
- Increase in operating cycle resulting from significant increase in collection period or inventory period.
- Non-renewal of contract with the principal.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of the company in construction equipment dealership: PEPL has been associated with JCB India Ltd (JCB) since 2006 and is the authorised dealer in Patna region in Bihar with 14 branches and 5 showrooms in the state, which have dedicated sales, service, and spares (3S) facilities. Currently the day to operation of the company is looking after by Ms. Shiwani Raj (Daughter of late Mr. Kumar Rajkishore, erstwhile MD) and Mrs. Sushma Raj (wife of late Mr. Kumar Rajkishore) with support from a team of experienced and qualified professionals.

Over the years PEPL has established long-term relationships with its suppler and customers. Its customer base comprises large & mid-sized construction & real estate companies.

Stable financial performance in FY19 and H1FY20: The operating income of PEPL improved to Rs.246.79 crore in FY19 vis-à-vis Rs.163.35 crore during FY18 with y-o-y growth of ~ 51% due to improvement in demand for JCB machines and spares. The company achieved relatively stable PBILDT margin at 2.96% in FY19 vis-à-vis 3.30% in FY18. However, PAT margin substantially improved to 2.44% in FY19 vis-à-vis 1.48% in FY18 due to non-operating income Rs.2.67 crore in FY19 from sale of land. Interest coverage ratio remained comfortable at 4.93x in FY19. PIPL achieved GCA of Rs.6.32 crore in FY19 (Rs.2.67 crore in FY18).

During H1FY20, PEPL achieved PAT of Rs.2 crore on total income of Rs.117.78 core vis-à-vis PAT of Rs.1.82 crore on total income of Rs.109.4 crore in H1FY19.

Comfortable capital structure and debt coverage indicators: Increase in net worth due to accretion of profits to reserves resulted in improvement in overall gearing to 0.57x as on March 31, 2019 as against 0.63x as on March 31, 2018. PEPL's debt as on March 31, 2019 mainly comprised short term borrowings in the form of working capital. Total debt/GCA remained moderate.

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

Key Rating Weaknesses

Working capital intensive nature of operation: The operations of PEPL are working capital intensive as ~96% of its total capital employed is deployed in working capital. The company has a policy to maintain inventory of around 45 days-60 days and has to offer a credit period of around 15-30 days to its customers due to intense competition in the industry. The company relies upon bank borrowings to fund its working capital requirement and average utilisation of limits remained high.

Supplier and geographical concentration risk along with pricing constraints: PEPL only deals in products of JCB in Bihar. The company's fortunes are linked to the performance and demand of JCB's products in the region. Also, it has limited pricing power.

Competition from various other construction equipment dealers: With the sole dealership network of JCB in designated areas of Bihar, it is exposed to external competition from dealers of other domestic and international brands. In view of this, it has to offer better buying terms like providing credit period or allowing discounts on purchases. Such discount creates margin pressure and negatively impact the earning capacity of PEPL. However, the promoter is into dealership business with JCB for over a decade and accordingly has created a brand image in its operational area.

Liquidity Position: Adequate
The liquidity position remains adequate as marked by sufficient cushion in accruals vis-à-vis negligible repayment obligations in FY20. PEPL does not have any capex plans in the near term. The average utilization of its fund based working capital limits remained high at about 87% during past twelve months ended Nov, 2019. Current ratio and quick ratio stood at 1.60x and 0.80x respectively as on March 31, 2019. PEPL had unencumbered cash and bank balance of Rs.4.69 crore as on March 31, 2019 which also supports the liquidity.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's methodology for trading companies

About the Company
PEPL was promoted in June 2006 by Bihar based late Mr. Arunodaya Kumar. PEPL is an authorised dealer of JCB for heavy earthmoving equipment and spare parts in Patna region of Bihar. PEPL is also involved in servicing of these machines and equipment that are usually sold with annual maintenance contracts It operates through 14 branches, two dedicated showrooms (Muzaffarpur, Patna) which has sales, service and spares (3S) facilities and three workshop (Bihta, Biharsharif, and Hathidah).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	163.35	246.79
PBILDT	5.39	7.30
PAT	2.42	6.03
Overall gearing (times)	0.63	0.57
Interest coverage (times)	3.54	4.93

A=Audited

Status of non-cooperation with previous CRA: CRISIL has suspended its ratings vide press release dated May 16, 2016 on account of non-cooperation by PEPL with CRISIL's efforts to undertake a review of the ratings outstanding.

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-Electronic Dealer Financing Scheme	-	-	-	12.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BBB-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Electronic Dealer Financing Scheme	LT	12.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Jan-19)	1)CARE BBB-; Stable (27-Feb-18) 2)CARE BBB-; ISSUER NOT COOPERATING* (29-Nov-17)	1)CARE BBB- (02-Aug-16)
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Jan-19)	1)CARE BBB-; Stable (27-Feb-18) 2)CARE BBB-; ISSUER NOT COOPERATING* (29-Nov-17)	1)CARE BBB- (02-Aug-16)

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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