

## Patliputra Equipments Private Limited

January 03, 2019

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	17.00	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
<b>Total Facilities</b>	<b>17.00</b> (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, experience of the promoters and comfortable capital structure and debt coverage indicators with moderate operating margins.

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.

Ability to improve the scale of operations, while maintaining profitability and capital structure, effective management of working capital and regular renewal of dealership agreement would remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strength

**Long track record of the company in construction equipment dealership and experienced promoters:** 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. The day to day operation of the company is being looked after by promoter director Mr. Kumar Rajkishore (after demise of earlier MD, late Mr. Arunodaya Kumar). He has long experience in construction equipment dealership business by virtue of his association with PEPL.

**Moderate profitability:** Total operating income remained relatively stable at Rs.163.35 crore in FY18 as against Rs.162.21 crore in FY17. PBILDT margin remained stable at 3.30% in FY18 vis-à-vis 3.27% in FY17. The profitability margins have remained range bound during the last three years and continued to remain moderate due to inherent nature of trading business.

The company achieved PAT of Rs.1.82 crore on operating 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 along with reduction in total debt level resulted in improvement in overall gearing to 0.63x as on March 31, 2018 as against 0.81x as on March 31, 2017. Consequently, total debt/GCA remained moderate. However, the networth base continues to remain low.

#### 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 net working capital. High working capital intensity arises from the fact that PEPL acts as a marketing channel for its suppliers and sourcing solution for its customers. 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 remains 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 company is into dealership business with JCB for over a decade and accordingly has created a brand image in its operational area.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Liquidity:** The liquidity position of the company is moderate with average utilisation of about 82% of fund based working capital limits through the 12 month period ended Nov 30, 2018. The company earned GCA of Rs.2.67 crore in FY18 as against no term debt repayment obligation FY18. PEPL had unencumbered cash and bank balance of Rs.3.05 crore as on March 31, 2018 which also supports the liquidity.

**Analytical approach:** Standalone

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[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 equipments 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 and five dedicated showrooms, which has sales, service, and spares (3S) facilities.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	162.21	163.35
PBILDT	5.31	5.39
PAT	2.10	2.42
Overall gearing (times)	0.81	0.63
Interest coverage (times)	3.19	3.54

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Electronic Dealer Financing Scheme	LT	12.00	CARE BBB-; Stable	-	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 (27-Feb-18) 2)CARE BBB-; ISSUER NOT COOPERATING* (29-Nov-17)	1)CARE BBB- (02-Aug-16)	-

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