

Precision Electronics Limited

April 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	7.00 (Enhanced from 4.80)	CARE BB; Stable (Double B; Outlook:Stable)	Reaffirmed
Long/Short term Bank Facilities	8.00 (Enhanced from 5.00)	CARE BB; Stable (Double B; Outlook:Stable)	Reaffirmed
Total	15.00 (Fifteen crore only)		

Details of facilities in annexure 1

Detailed Rational and key rating drivers

The ratings assigned to the bank facilities of Precision Electronics Limited (PEL), continue to remain constrained by its small scale of operations coupled with low PAT margin and elongated operating cycle. The ratings are further constrained by tender-driven nature of business.

The ratings, however, continue to draw comfort from qualified and experienced promoters, comfortable capital structure and coverage indicators. The ratings, further, continue to draw comfort from technological tie ups with reputed international players and positive industry outlook.

Going forward, the ability of the company to increase its scale of operations while registering profitability, maintaining its capital structure, and managing its working capital requirements effectively would be the key rating sensitivities.

Detailed description of key rating drivers

Key rating weakness

Small scale of operations coupled with Low PAT margin

The total operating income of the company continues to remain small marked by total operating income and gross cash accruals of Rs. 24.34 crores and 1.85 crores respectively for FY17. The small scale limits the company financial flexibility in times of stress and deprives it from scale benefits. During 9MFY18 (refers to the period April 01 to December 31; based on provisional results), the company has achieved a total operating income of Rs.19.87 crores. The PBILDT margin of the company improved and stood at 11.98% as against operational losses in FY16. The improvement in the PBILDT margin was on account of contracts executed with high margins. However, high interest cost and depreciation charges restricted the net profitability at 0.25% in FY17.

Elongated operating cycle

PEL has order-based operations and orders are acquired through tenders. The collection period of the company stood elongated mainly due to delay in realization of the receivables owing to lengthy clearance process with the government departments which take around 2-3 months in realization. The same resulted in average collection period of 105 days for FY17. Furthermore, PEL has to keep high inventories to execute the orders in time. PEL imports more than 50% of the raw materials and balance is acquired from domestic markets. The raw material procurement cycle generally extends up to two months. The same is reflected in its high inventory holding period which extends up 253 in FY17 days and subsequently it results into elongated operating capital cycle. Furthermore, the working capital borrowings are almost fully utilized for the period ended February 28, 2018.

Tender-driven nature of business

The company majorly undertakes government projects, which are awarded through the tender-based system. The company is exposed to the risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. This apart, any changes in the government policy or government spending on projects are likely to affect the revenues and profits of the company.

Key Rating Strengths

Qualified and Experienced promoters

PEL was incorporated in 1979 and its promoters have wide experience in electronic components industry. Mr Ashok Kanodia, an electrical engineer and MBA from Massachusetts Institute of Technology has more than three decades of experience in this industry. He was also a member of high level "Kelkar Committee" and Chairman of Specialist group on

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

Defense Communications and Information Warfare of Confederation of Indian Industry. Mr Pradeep Kanodia also has more than three decades of experience in this industry as well.

Moderate Capital Structure and coverage indicators

Capital structure remained comfortable reflected by healthy net worth base coupled with limited reliance on external debt. Debt equity ratio and overall gearing ratio of 0.18x and 0.45x respectively as on March 31, 2017. The coverage indicators of the company improved and stood moderate as marked by interest coverage ratio of 2.51x and total debt to GCA of 5.01x in FY17 as against stressed coverage indicators in FY16. The improvement in the coverage indicators is on account of improved profitability and resultant improved GCA.

Technological tie ups with reputed international players

PEL strategic tie ups are technical wherein PEL has received technology to enable it design parts that are integrated in the main system. Based on this knowledge PEL technical team has customized the system for the Indian requirement and in the process has ensured that PEL is the designated/ sole supplier of the system irrespective of the Prime who gets the order from the MOD.

Positive industry outlook

The Indian defense policy focuses on promoting self-reliance, indigenization, technology, up-gradation, achieving economies of scale and developing capabilities for exports in the defense sector. The policy stance of present government in India and the 'Make in India' campaign is poised to make India a defense manufacturing hub with strong emphasis on sustainable and quality production (Zero Effect and Zero Defect). The GOI also advocates strategic engagement of both private and public sector in the defense industry. The policy support to Indian defense industry includes fiscal and monetary incentives such as streamlining of grant of licenses, tax incentives, area-based incentives schemes, well-defined policies for joint ventures, procurement, etc.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook 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](#)

About the Entity

PEL was incorporated in May 1979, as a private limited concern having registered office at New Delhi. In 1989 PEL was converted into a public limited company. It got listed on Bombay Stock Exchange (BSE) in 1991. Mr Ashok Kanodia, Managing Director, and Mr Pradeep Kanodia, Executive Director, are the key promoters of PEL, both having more than three decades of experience. PEL is engaged in the business of designing and manufacturing of telecom transmission systems, military communication systems, electronic warfare systems and C4I2SR systems. PEL's operations are mainly order based and orders are acquired through tendering process. PEL has two manufacturing facilities located at Noida (U.P.) and Roorkee (Uttarakhand) established in 1989 and 2007, respectively.

(Rs. In crores)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	26.01	24.34
PBILDT	-0.27	2.92
PAT	-1.95	0.06
Overall gearing (times)	0.36	0.45
Interest coverage (times)	-0.26	2.51

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr Achin Nirwani

Tel: 011- 45333228

Email: achin.nirwani@careratings.com

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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-Cash Credit	-	-	-	7.00	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	8.00	CARE BB; Stable / CARE A4

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-Cash Credit	LT	7.00	CARE BB; Stable	-	1)CARE BB; Stable (15-May-17)	1)CARE BB (14-Apr-16)	1)CARE BB (01-Jul-15) 2)CARE B (15-Apr-15)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	8.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (15-May-17)	1)CARE BB / CARE A4 (14-Apr-16)	1)CARE BB / CARE A4 (01-Jul-15) 2)CARE B / CARE A4 (15-Apr-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com