

**Precision Electronics Limited**

May 15, 2017

**Rating**

Bank Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term Bank Facilities	4.80	<b>CARE BB; Stable (Double B; Outlook: Stable)</b>	<b>Reaffirmed</b>
Long-term/Short-term Bank Facilities	5.00	<b>CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/A Four)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>9.80 (Rupees Nine crore and Eighty lakh only)</b>		

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale 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 with operational losses and elongated operating cycle. The ratings are further constrained by tender-driven nature of business, company's low bargaining power with the customers and lengthy testing & approval process along with vulnerability of profitability to high fixed overheads.

The ratings, however, continue to draw comfort from experience of the promoters, PEL's long track record of operations, moderate unexecuted order book position and comfortable capital structure and established relationship with the customers. The ratings, further, continue to draw comfort from technological tie ups with reputed international players and presence of the necessary approvals for supplying products to leading government organizations including defense sector 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 the key rating drivers**
**Key Rating Weakness**
***Small scale of operations coupled with operational losses and stressed coverage indicators***

The total operating income of the company stood broadly stable at Rs.26.01 crore in FY16 (FY refers to the period April 01 to March 31). The company was operating its manufacturing facilities significantly below the optimum levels due to pending clearances from various governmental departments in respect to work under progress. The same coupled with high fixed overheads which mainly included employee expenses resulted in losses at PBILDT level in FY16. The company had cash losses of 1.30 crores on account of losses at PBILDT levels coupled with higher interest cost. Furthermore, the company had stressed coverage indicators owing to operational losses. The company has achieved TOI of Rs.13.70 crore during 9MFY17 (refers to the period April 01 to December 31, based on provisional results).

**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. 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 and subsequently it results into elongated operating capital cycle. Furthermore, the working capital borrowings are 85% utilized for the period ended February 28, 2017.

**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

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

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 experience 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 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 unexecuted order book position and Comfortable capital structure***

The company had unexecuted order book of Rs38.51 crore as on March 23, 2017, which is equivalent to 1.48x of total operating income achieved (TOI) in FY16. These projects have to be executed in next 2 years, thus, providing revenue visibility in near to medium term. The orders are diversified across numerous domestic and international customers who are working in coordination with various government departments, Indian Navy and Armed forces.

Capital structure remained comfortable reflected by healthy net worth base coupled with limited reliance on external debt. Debt equity ratio and overall gearing ratio stood 0.15x and 0.36x respectively as on March 31, 2016.

#### ***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 support to Indian defense industry includes fiscal and monetary incentives such as streamlining of grant of licenses, tax incentives, area-based incentives schemes etc. This provides the huge opportunities for not only a few large players in the industry but also to a large number of Micro, Small and Medium Sized Enterprises (MSMEs). The opportunities lie not only in defense products manufacturing but also towards supply chain sourcing as well as defense offsets. Furthermore, the opening of the strategic defense sector for private sector participation will help foreign original equipment manufacturers to enter into strategic partnerships not only with large Indian companies but also with MSMEs.

### **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.

For FY16 (refers to the period April 01 to March 31), the company achieved a total operating income (TOI) of Rs.26.01 crore with net losses, respectively, as against TOI of Rs.27.69 crore with net losses in FY15. Furthermore, the company has achieved TOI of Rs.13.70 crore during 9MFY17 (refers to the period April 01 to December 31, based on provisional results).

**Status of non-cooperation with previous CRA:** Not Applicable

**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-Cash Credit	-	-	-	4	CARE B+; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	2	CARE B+; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	4	CARE B+; Stable	-	-	-	-
2.	Non-fund-based - LT-Bank Guarantees	LT	2	CARE B+; Stable	-	-	-	-

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