Zenith Precision Private Limited

February 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities	25.69 (reduced from 26.80)	**CARE D (Single D)**	**Revised from CARE BB-; Stable (Double B Minus)**
Total	**25.69 (Rupees Twenty-Five Crore Sixty-Nine Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of Zenith Precision Private Limited is tempered by on-going delays in servicing debt obligation due to stretched liquidity position

Rating Sensitivities

Positive Factors

- Delay free track record for minimum 3 months

Negative Factors: NA

Detailed description of the key rating drivers

Key Rating Weaknesses

On-going delays in debt service obligations

As per the bank statements analysis, there are penal interest debited in 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 favorable 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.

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

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

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
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: Nil

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
Fund-based - LT-Term Loan	-	-	August,2022	0.50	CARE D
Fund-based - LT-Term Loan	-	-	-	1.96*	CARE D
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE D
Fund-based - LT-Working capital Term Loan	-	-	March,2021	0.94	CARE D

*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 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-Term Loan	LT	7.29	CARE D	-	1)CARE BB-; Stable (26-Nov-18)	-	-
2.	Fund-based - LT-Term Loan	LT	0.50	CARE D	-	1)CARE BB-; Stable (26-Nov-18)	-	-
3.	Fund-based - LT-Term Loan	LT	1.96*	CARE D	-	1)CARE BB-; Stable (26-Nov-18)	-	-
4.	Fund-based - LT-Cash Credit	LT	15.00	CARE D	-	1)CARE BB-; Stable (26-Nov-18)	-	-
5.	Fund-based - LT-Working capital Term Loan	LT	0.94	CARE D	-	1)CARE BB-; Stable (26-Nov-18)	-	-

*Proposed

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Ms Nivedita Ghayal
Group Head Contact no.- 040-40102030
Group Head Email ID- nivedita.ghayal@careratings.com

Business Development Contact
Name: Mr. Nitin Kumar Dalmia
Contact no. : 080- 4662 5526
Email ID : nitin.dalmia@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 the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at** http://www.careratings.com