Zenith Precision Private Limited

November 26, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities	26.80	**CARE BB-, Stable (Double B Minus, Outlook: Stable)**	**Assigned**
Total	**26.80 (Rupees Twenty six crore and eighty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Zenith Precision Private Limited are tempered by small scale of operations with fluctuating operating income during review period, financial risk profile marked by decreasing profit margins, leveraged capital structure and weak debt coverage indicators, working capital nature intensive nature of operation, and highly fragmented industry with intense competition from large number of players and vulnerability of profits to raw materials price movements and foreign exchange fluctuations.

The rating takes into account long track record of operations with experienced promoters in the engineering industry, Reputed and established customer base, diversified revenue stream and favorable demand outlook of precision tool and aerospace industry.

Going forward, the ability of the company to increase its scale of operations, ability to improve its capital structure and debt coverage indicators, ability to improve its profitability and ability to improve its working capital requirement efficiently would be the key rating factors.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with fluctuating operating income during review period

Despite being in business operations since 1986, the scale of operations the company remained small marked by TOI of Rs33.99 crore in FY18 with a low net worth base of Rs.16.42 crore as on March 31, 2017. The small scale limits the firm's financial flexibility in times of stress and deprives it from scale benefits.

The TOI has been fluctuating over the last 4 years. It stood at Rs 33.99 crore in FY18 as compared to Rs 39.70 crore in FY17. The decline in sales is mainly on back of decline in domestic sales due to sluggish market of the end user industries.

Financial risk profile marked by decreasing profit margins, leveraged capital structure and weak debt coverage indicators

With year on year increase in employee costs and other manufacturing costs, the PBILT margins of the company have been declining during the review period. It stood at 15.77% in FY18 as compared to 16.29% and 19.15% in FY17 and FY16 respectively. In line with PBILDT margin along with high finance charges, the PAT margins have declined and stood at 2.17% in FY18 as compared to 3.73% and 4.40% in FY17 and FY16 respectively.

The capital structure of the company marked by overall gearing ratio of 2.00x as on March 31, 2018 stood leveraged. The capital structure of the company consists of term loan of Rs 12.26 crore, working capital borrowings of Rs 17 crore and interest free unsecured loans of Rs 1.89 crore. The net worth of the company stood at Rs 16.42 crore.

The debt coverage ratios marked by TD/GCA and interest coverage ratio stood weak at 14.99x and 1.88x respectively in FY18 as compared to 9.83x and 2.50x respectively in FY17. The deterioration and weak debt coverage ratios are mainly on account of increase in debt levels taken for purchase of machinery and decline in gross cash accruals.

Working capital nature intensive nature of operation

The manufacturing process of the components takes 10-12 weeks during which the unused raw material remains in the inventory resulting in high inventory period. Further, during FY18, due to slow market conditions, the inventory period during FY18 increased and stood at 207 days as compared to 145 days during FY17. Despite having a comfortable creditor's period of 100 days, and moderate collection period of 135 days in line with the industry standards as on March 31, 2018, the working capital cycle remained high standing at 243 days due to high inventory period. The current ratio and the quick ratio of the company remained moderate at 1.27x and 0.75x respectively as on March 31, 2018.

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

Highly fragmented industry with intense competition from large number of players and vulnerability of profits to raw materials price movements 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 (constituting about 30-50% of the total operating income), the profitability margins of the company is suspect to input price fluctuation. 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 engineering 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 with its ability 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 lock 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 stream

The products manufactured by the company find its application in automotive, locomotive, medical components and aero-space industries. The company gets about 60% of the revenue from sale of aerospace components while the rest 40% of the revenue is generated from sale on non-aerospace components to other industries. About 90% of the sales are exports and deemed exports. The components are exported to USA.

Favorable 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.

Liquidity Analysis

The current ratio of the company stood moderate at 1.27x as on March 31, 2018 due to relatively high trade receivables as compared to accounts payables. The cash and bank balances as on March 31, 2018 stood at Rs 2.23 crore**.**

Analytical approach: Standalone

Applicable criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
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.Pinto. The company is involved 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 3 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)	FY17 (A)	FY18 (A)
Total operating income	39.70	33.99
PBILDT	6.60	5.36
PAT	1.48	0.74
Overall gearing (times)	1.86	2.01
Interest coverage (times)	2.50	1.89

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
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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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	7.40	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	August,2022	0.77	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	-	1.96*	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BB-; Stable
Fund-based - LT-Working capital Term Loan	-	-	March,2021	1.67	CARE BB-; Stable

*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 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-Term Loan	LT	7.40	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	0.77	CARE BB-; Stable	-	-	-	-
3.	Fund-based - LT-Term Loan	LT	1.96	CARE BB-; Stable	-	-	-	-
4.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB-; Stable	-	-	-	-
5.	Fund-based - LT-Working capital Term Loan	LT	1.67	CARE BB-; Stable	-	-	-	-

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