

March 29, 2017

Pragati Engineering Belgaum Private Limited

| Instruments* | Amount Rated (Rs. crore) | Rating Action |
|-------------------------------|-----------------------------|----------------------------|
| Long term: Fund based limits | 3.28 | [ICRA]B- (Stable) Assigned |
| Long term: Unallocated Limits | 2.72 | [ICRA]B- (Stable) Assigned |

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has assigned the long term rating of [ICRA]B- to the Rs.0.28 crore term loan facilities , Rs.2.72 crore unallocated limits and Rs.3.00 crore cash credit facilities of Pragati Engineering Belgaum Private Limited. The outlook on long term rating is stable..

Rationale

The assigned rating takes into account the established track record of the promoter group in the manufacture of precision machine tools as also their continued support in the form of interest free unsecured loans. The rating, however factors in the decline in the operating income on depressed order flow from the group company as also the decline in operating margins which although remain high on account of presence in precision machine parts manufacture. Further, the rating factors in the modest scale of operations with considerable dependence on a single client, its group company for sales. The rating also factors in the stretched inventory levels and payables mainly on year end purchases of raw material stock.

Going forward, maintaining optimal profitability levels as far as the debt servicing is concerned as also managing inventory and payables remain key sensitivities going forward.

Key rating drivers

Credit Strengths

- Established track record in manufacturing of precision machine components and reputed client base in machine tool manufacturing industry.
- Sizeable revenue growth in H1'FY2017.
- Continuous support from promoters in the form of interest free unsecured loans

Credit Weakness

- Decline in operating income in FY'2016 on depressed order flow from its major customer, Pragati Automation Private Limited which contributes close to 90% of the topline.
- Decline in operating margins in FY'2016 although they still remain high.
- Stretched capital structure on account of low net worth base and high debt levels, although sizeable portion of debt consists of unsecured loans
- Stretched liquidity position due to high receivables pending from associate company.
- Modest scale of operations.

Description of key rating drivers highlighted above:

The company's customer base has been skewed in favor of group company, PAPL. PEBPL procures 90% of the orders from PAPL with rest from Atlas Copco Limited Pune. Thus the company's growth has in the past fiscals being the function of order inflow from PAPL.

The company after witnessing a significant OI growth in FY'2015 has shown a decline in the same in FY'2016. OI declined to Rs.12.9 crore in FY'2016 from Rs.16.9 crore in FY'2015 given the muted order inflow from the principal customer, PAPL. The company expects no major change in the operating margins in the next fiscal with product portfolio remaining almost constant. NPM remained negative in FY'2016 although the company recorded profits at PBT levels.

The network remained weak in past fiscals mainly due to impact of accumulated losses resulting in adverse capital structure. The adjusted gearing, however remained low as the debt profile remained dominated by interest free unsecured loans from the promoters. Working Capital Intensity remained comfortable at 7% in FY'2016 as compared to 14% in FY'2015 mainly due to stretched payables. The inventory remained stretched in FY'2016 in line with FY'2015 mainly due to raw material stock and work in progress.

Analytical approach:**Links to applicable Criteria****Corporate Credit Ratings: A Note on Methodology****About the Company:**

Pragati Engineering Belgaum Private Limited (PEBPL) incorporated in 1996 is promoted by Mr. Suresh Bhirangi, his son Mr. Mahesh S Bhirangi and his associates/friends. The Belgaum (Karnataka) based Pragati Engineering Belgaum Private Limited is involved in manufacture of sub assemblies, precision components among others. These components primarily find application in machine tool industry among others.

The founders also have promoted entities like Pragati Automation Private Limited (PAPL), Pragati Transmission Private Limited among others

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

Any other information: Not Applicable.

Rating History for last three years:
Table: Rating History

| S. No. | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | | |
|--------|--------------------|----------------|---------------------------|-----------------------|---|---------------------------------|---------------------------------|
| | | Type | Rated amount (Rs. Crores) | Month - year & rating | Month - year & Rating in FY2016 | Month - year & Rating in FY2015 | Month - year & Rating in FY2014 |
| 1 | Term Loans | Long term | | March'17 | October'15 | January'14 | N.A. |
| | | | 0.28 | [ICRA]B-(Stable) | Suspended | [ICRA] C+ | N.A. |
| 2 | Cash Credit | Long term | 3.00 | [ICRA]B-(Stable) | Suspended | [ICRA] C+ | N.A. |
| 3 | Unallocated Limits | Long term | 2.72 | [ICRA]B-(Stable) | Suspended | [ICRA] C+ | N.A. |

The ratings were suspended in October'2015

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

| Name of the instrument | Date of issuance | Maturity Date | Size of the issue (Rs. Cr) | Current Rating and Outlook |
|--------------------------|------------------|---------------|----------------------------|----------------------------|
| Fund based - cash credit | - | - | 3.00 | [ICRA]B- (Stable) |
| Term Loans | * | March 2017 | 0.28 | [ICRA]B- (Stable) |
| Long term – Unallocated | - | - | 2.72 | [ICRA]B- (Stable) |

* Information not available

Source: Pragati Engineering Belgaum Private Limited

Name and Contact Details of the Rating Analyst(s):

Mr. Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Ravi Kabra
+91 20 25561194
ravi.kabra@icraindia.com

Shashikant Raut
+91 20 66069916
shashikant.raut@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500