

## Pragati Engineering Belgaum Private Limited

September 24, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	3.00	3.00	[ICRA]B (Stable); upgraded from [ICRA]B- (Stable) and removed from Issuer Not-cooperating category
Fund-based – Term Loans	0.28	4.28 <sup>#</sup>	[ICRA]B (Stable); upgraded from [ICRA]B- (Stable) and removed from Issuer Not-cooperating category
Long term, Unallocated	2.72	2.72	[ICRA]B (Stable); upgraded from [ICRA]B- (Stable) and removed from Issuer Not-cooperating category
<b>Total</b>	<b>6.00</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-1, <sup>#</sup>includes proposed term loan of Rs.4.00 crore

### Rating action

ICRA has upgraded the long-term rating of [ICRA]B- (pronounced ICRA B minus) to the Rs. 3.00-crore<sup>1</sup> working capital facilities, the Rs. 4.28-crore term loans (enhanced from Rs. 0.28 crore) and the Rs. 2.72-crore unallocated limits of Pragati Engineering Belgaum Private Limited (PEBPL or the company)<sup>2</sup> to [ICRA]B (pronounced ICRA B). The outlook on the long-term rating is Stable. The rating has also been removed from the 'Issuer not cooperating' category as PEBPL has now submitted the No Default Statement (NDS), which validates that the company is regular in meeting its debt service obligations.

### Rationale

The rating upgrade factors in the healthy revenue growth reported by PEBPL in the past two fiscals on the back of increased order flow from the principal customer, Pragati Automation Private Limited. The rating continues to take into account the extensive experience of the promoters in the domestic machine tools industry and its healthy operating margins, given the high value addition in precision machine works. The rating, however, remains constrained by PEBPL's significant dependence on a single customer for sales. ICRA also notes its leveraged capital structure, high working capital intensity mainly on elongated receivables and high inventory position, impacting its liquidity, and vulnerability of profitability to fluctuations in raw material prices, mainly steel.

### Outlook: Stable

ICRA expects PEBPL to continue to benefit from the extensive experience of its promoters in the precision tools industry. The outlook may be revised to Positive if substantial growth in revenues while maintaining healthy profitability, diversification of customer base, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Extensive experience of the promoters in the precision machine tools industry** - The promoters, Mr. Suresh Bhirangi and his son, Mr. Mahesh S Bhirangi, have over 30 years of experience in the precision tools industry. The Bhirangi family is also associated with Pragati Automation Private Limited (PAPL) and Pragati Transmission Private Limited, which manufacture precision machinery parts.

**Significant increase in revenues in past two fiscals, healthy operating margins** - PEPBL has reported healthy growth in revenues in the past two fiscals on increased order flow from its principal customer, PAPL. The OI remained at Rs. 25.26 crore in FY2018 (provisional) as against Rs. 18.13 crore and Rs. 12.95 crore in FY2016 and FY2017, respectively. The operating margins continued to remain healthy, given the high value addition in precision machine works and stood at 20.54% in FY2018 as against 16.89% in FY2017.

### Credit challenges

**Leveraged capital structure** - PEBPL's capital structure continued to remain leveraged, given its low net worth base, standing at 1.8 times as on March 31, 2018; although it reduced from 5.3 times as on the end of the previous fiscal. The capital structure is likely to remain stretched in the near term as PEBPL is planning to avail a Rs. 4.00-crore term loan in the current fiscal for procuring machinery.

**High working capital intensity due to weak liquidity position, elongated receivables and high inventory levels** – The working capital intensity of the company continued to remain high as in the past and increased to 23% in FY2018 from 21% in FY2017. The receivables and inventory levels continued to remain high and stood at 149 days and 76 days, respectively, as on March 31, 2018. PEBPL's liquidity position remained tight, given the stretched working capital cycle, as reflected by 80% utilisation of cash credit limit during the 16-month period that ended in July 2018.

**Vulnerability of profitability to raw material price movements** – The company's profitability remains vulnerable to raw material price movements, mainly steel. Any adverse movements in the same that cannot be adequately passed on to the client can have a bearing on its profitability metrics.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

## About the Company

Pragati Engineering Belgaum Private Limited was promoted by Mr. Suresh Bhirangi and his son, Mr. Mahesh S Bhirangi, in 1996. The company is based in Belgaum (Karnataka) and is involved in manufacturing sub-assemblies and precision components, which find application in the machine tool industry. The founders have also promoted two other entities, Pragati Automation Private Limited and Pragati Transmission Private Limited, who manufacture precision machinery parts.

In FY2018, on a provisional basis, the firm reported a profit before tax of Rs. 3.05 crore on an operating income of Rs. 25.3 crore, as compared to a net profit of Rs. 1.15 crore on an operating income of Rs. 18.1 crore in the previous year.

## Key financial indicators (audited)

	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Provisional)*
Operating Income (Rs. crore)	12.95	18.13	25.26
PAT (Rs. crore)	-0.04	1.15	3.05
OPBDIT/OI (%)	15.99%	16.89%	20.54%
RoCE (%)	7.31%	17.03%	29.51%
Total Debt/TNW (times)	5.30	1.80	3.41
Total Debt/OPBDIT (times)	3.40	1.74	5.72
Interest Coverage (times)	6.42	6.21	2.90

\* Before tax financials

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

SN	Instrument	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding <sup>^</sup> (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 October 2015
1	Cash Credit	Long Term	3.00	-	[ICRA]B (stable); removed from issuer non-cooperating category	[ICRA]B-(Stable); ISSUER NOT COOPERATING	[ICRA]B-(stable)	[ICRA]C+
2	Term Loans	Long Term	4.28 <sup>#</sup>	0.17	[ICRA]B (stable); removed from issuer not-cooperating category	[ICRA]B-(stable); ISSUER NOT COOPERATING	[ICRA]B-(stable)	[ICRA]C+
3	Unallocated	Long Term	2.72	-	[ICRA]B (stable); removed from issuer not-cooperating category	[ICRA]B-(stable); ISSUER NOT COOPERATING	[ICRA]B-(stable)	[ICRA]C+

<sup>^</sup> as on March 31, 2018, <sup>#</sup> includes proposed term loan of Rs.4.00 crore

## 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	3.00	[ICRA]B(stable)
NA	Term Loans	October 2014	11.55%	January 2019	4.28 <sup>#</sup>	[ICRA]B(stable)
NA	Unallocated	NA	NA	NA	2.72	[ICRA]B(stable)

#includes proposed term loan of Rs.4.00 crore  
PEBPL

Source:

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