

## Omnitech Engineering Private Limited

February 25, 2022

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	12.30	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	19.82	CARE BBB; Stable /CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)
<b>Total Bank Facilities</b>	<b>32.12</b> <b>(Rs. Thirty-Two Crore and Twelve Lakhs Only)</b>		

*Details of facilities in Annexure -1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Omnitech Engineering Private Limited (Omnitech) take into account significant improvement in its total operating income (TOI) in 9MFY22 (Provisional; FY refers to the period April 01 to March 31) with consistent improvement in profitability leading to strong return indicators in FY21 and 9MFY22. The revision in ratings also factor in change of its constitution from partnership firm to private limited company.

The ratings, further, continue to derives strength from long experience of its promoter in the precision components manufacturing industry, its established operations with continuous addition of new machines, reputed customer base along with geographically diversified revenue profile along with comfortable capital structure and debt coverage indicators.

The ratings are, however, constrained due to its moderate scale of operations, high working capital intensity marked by elongated operating cycle, limited bargaining power against original equipment manufacturers (OEMs) and susceptibility of its profit margins to volatility in raw material prices and forex rates.

### Rating Sensitivities

#### **Positive Factors - Factors that could lead to positive rating action/upgrade:**

- Significant growth in its scale of operations with TOI of over Rs.200 crore while maintaining healthy PBILDT margin of more than 30% on a sustained basis.
- Improvement in its capital structure with overall gearing below 0.50 times and total debt to GCA below 1.50 times on sustained basis.
- Managing its working capital efficiently with improvement in working capital cycle to near 120 days

#### **Negative Factors- Factors that could lead to negative rating action/downgrade:**

- Deterioration in its overall gearing above 1.00 times.
- Deterioration in its profitability margins marked by PBILDT of below 20% on a sustained basis.
- Elongation of operating cycle beyond 180 days

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Significant growth in TOI in 9MFY22 with consistent improvement in profitability and healthy return ratios**

Omnitech's growing scale of operations backed by addition of new machines with better efficiency as well as new products resulted in better profit margins for the company. TOI grew significantly by 92% y-o-y to Rs.85 crore in 9MFY22 (UA) on the back of increase in demand of its products from existing customers as well as addition of new customers in its client portfolio. The company's PBILDT margin had shown improving trend which continued in FY21 as well and it reported PBILDT margin of 31.20% in FY21 compared to 24.39% in FY20. It further improved to 35.50 % in 9MFY22 (UA). It is able to improve and maintain its healthy profitability owing to customized nature of its product which are also critical components and various serviced like Just in time inventory provided for which it charges premium from its customers. As a result, return ratios of the company also remained healthy with ROCE and RONW of over 19% in last four years ended in FY21.

#### **Change in constitution from partnership firm to private limited company**

Omnitech has changed its constitution on August 09, 2021 from partnership firm with tangible net worth base of Rs.38.15 crore to private limited company with paid-up equity share capital of Rs.5.00 crore and Rs.25 has been converted into USL which are subordinated to bank debt and are considered as quasi equity. Also, other USL stood at 3.20 crore as on December 31, 2021 compared to 3.72 Crore as on March 31, 2021.

#### **Long experience of promoter in the precision components manufacturing industry**

Mr. Udaybhai A. Parekh, Chief Executive Officer (CEO) and Director, has more than two-decades long experience in the precision components manufacturing industry. He is well assisted by his brother-in-law Mr. Paras Parekh, who is the Chief

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

Operating Officer (COO) of the company and both of them look after overall administration and day-to-day operations of the company.

#### ***Established operations with continuous addition of new machines***

The company has established operations with track record of more than one and a half decades in manufacturing of turned and machined parts like cylinder liner, piston, gear box, shafts, connecting rod etc. which are precision engineering products/parts. Its manufacturing facility and processes are accredited with various certification viz. ISO 9001:2015 (Quality Management Systems), ISO 14001:2015 (Environmental Management Systems), ISO 45001:2018: (Occupational health & safety management systems) and IATF 16949 (International standards for Automotive quality management systems). Omnitech has star house export certification as well and receives various benefits.

Over the years Omnitech had added various type of computer numerical control (CNC), vertical machining center (VMC) and gear shaper machines to strengthen its capability to manufacture precision parts as per customer specifications. Omnitech has developed more than 800 new products in last 12 months leading to its large product portfolio of more than 3000 products as on December 31, 2021 which it supplies to more than 50 global and domestic clients. In FY21, Omnitech has purchased new machineries worth Rs.11.48 crore which mainly comprised of installation of 11 VMC machines which were imported by the company from Japan and Germany and the same were funded by term loan of Rs. 4.52 crore and the balance from internal accruals. In FY22, Omnitech has further planned to install machineries worth around Rs.20 crore which includes 10 VMC machines, 14 CNC machines and other machineries and the same to be funded from mix of debt and internal accruals.

#### ***Reputed customer base along with geographically diversified revenue profile***

Omnitech is primarily engaged in exports of the precision components and 71% of its TOI came from exports in FY21 (76% in FY20). The exports of the company constitute majority of its clients in USA and EU region.

The company primarily caters directly to the requirements of the Original Equipment Manufacturer (OEMs). Omnitech has reputed customer base due to its specialized products, precision and various accreditations and product quality and thereby commands healthy profitability. Omnitech caters to the requirement of diverse industry segments including Earth Moving equipment, Airport and ground equipment, Oil & Gas, Power and other engineering industry. Also, company is targeting customers in renewable segment. The customer base of the company remained diversified marked by top 10 customers forming 59% of its total income in FY21.

#### ***Comfortable capital structure and debt coverage indicators***

Capital structure of Omnitech marked by its overall gearing ratio improved and continued to remain comfortable at 0.59 times as on March 31, 2021 which moderated, though remained comfortable as on December 31, 2021 with increase working capital debt and term loans availed for expansion. The debt coverage indicators of Omnitech also remained comfortable marked by PBILDT Interest coverage ratio of 8.80 times (PY: 7.00 times) and total debt / GCA of 1.60 years [PY: 2.72 years] in year ended on March 31, 2021.

#### **Key Rating Weaknesses**

##### ***Growing albeit moderate scale of operations***

Omnitech's TOI grew by 10% in FY21 over FY20 to Rs.64.32 crore. It further increased to Rs.85 crore in 9MFY22 and is expected to near double its TOI in FY22. However, despite growth overall scale remained moderate.

##### ***Working capital intensive operations with elongation of operating cycle***

The company is engaged in making of precision components of various sizes, types and specifications catering to diversified industry segments and had setup one warehouse in the USA to decrease lead time to its customers. Also, the company purchase raw materials at time of receipt of new contracts to mitigate raw material fluctuation risk. Hence, considering multiple products, transit time of 60-90 days and execution period led to high inventory days. Further, the company provides a clean credit to its customers for around 60-90 days. However, the payment to the creditors of the company needs to be completed in around 10 days resulting in high working capital intensity.

Omnitech's working capital intensity had exhibiting increasing trend with elongation in its operating cycle from 57 days in FY19 to 143 days in FY21 which further increased to 159 days in 9MFY22 on the back of multi-fold increase in its inventory level and debtors level. To fund the working capital company had increased its limit to Rs.20 crore from Rs.9 crore and had also availed ad-hoc of Rs.5 crore in Q3FY22. Going forward, managing its working capital efficiently while funding its capex plans to support its increasing scale of operations is critical for liquidity perspective.

##### ***Limited bargaining power against OEMs***

Omnitech caters to reputed companies in USA and Europe including Fortune 500 companies. Considering its size, it has limited bargaining power against OEMs. Omnitech has to maintain large portfolio of product offerings and continuously evolve itself as per client requirement to remain competitive in business as it competes with large organized plays for export orders.

##### ***Susceptibility of profit margins to volatility in raw material prices and forex rates***

The company's key raw materials consists of bar-stocks made of steel and alloys whose prices are volatile in nature. Also, the orders are received on monthly and quarterly basis which are of fixed prices in nature exposing its profitability to volatility associated with raw material prices. But, as articulated by management, Omnitech has price variation clause with all of its customers limiting its risk to volatility in raw material prices.

The company derives majority of its revenue from export market as against imports remained limited and the company manages its foreign exchange risk by using PCFC limit and engaging itself into forward contracts as per market condition, though it has not devised any formal foreign exchange hedging policy, which resulted in forex gain/loss in past. During FY21, company reported forex gain of Rs.0.90 crore as compared to Rs.1.25 crore in FY20. Thus, its profitability is susceptible to any adverse fluctuations in forex rates.

#### Liquidity: Adequate

Omnitech has adequate liquidity marked by healthy cash accruals (around Rs. 14 crore) vis-à-vis moderate repayment obligations, moderate liquidity ratios coupled with moderate working capital limit utilization. The current ratio and the quick ratio of the company remained moderate at 2.00 times and 1.48 times respectively as on March 31, 2021. Omnitech is expected to generate cash accruals of 30-50 crore in FY22-FY24 as against scheduled debt repayment obligations of Rs.4-5.50 crore during same period. In FY22, the company has availed working capital term loans under the covid-19 emergency credit line with moratorium of 12 months to the tune of Rs. 4.99 crore, which is expected to provide additional cushion to Omnitech's liquidity in near term. Furthermore, the company's average fund based working capital utilization remained moderate at around 65% in last 12 months ended in January, 2022. Omnitech's cash flow from operations (CFO) remained moderate at Rs.8.52 crore in FY21 despite healthy GCA level due to its high working capital intensity.

**Analytical Approach:** Standalone

#### Applicable criteria:

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial Ratios - Non-Financial Sector](#)

[Criteria for short term instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### About the Company

Omnitech Engineering Private Limited (Omnitech, CIN: U29306GJ2021PTC124801), formerly Omnitech Engineering is promoted by Mr. Uday A. Parekh and Mrs. Kinneriben U. Parekh as a partnership firm which started its operations in 2006, and subsequently, it has been converted into private limited company in August, 2021. The company is engaged in manufacturing of turned and machined parts which are precision engineering products catering to various industries like oil & gas, power, agriculture and earth moving equipment, hydraulics, airport ground support equipment, automation and valve etc. These are customized products/parts which are manufactured as per customer specifications from stainless steel and alloy bars, forging and casting products. It has presence in India as well as export market (around 15 countries).

Brief Financials (in Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	59.38	64.32	85.08
PBILDT	14.49	20.07	30.20
PAT	5.90	6.76	16.82 <sup>^</sup>
Overall gearing (times)	0.83	0.59	0.94
PBILDT Interest coverage (times)	7.00	8.80	16.59

A: Audited; UA: Unaudited; <sup>^</sup>25% tax assumed in 9MFY22 (UA)

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

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**Covenants of rated facility:** Detailed explanation of covenants of the rated facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

#### Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	November, 2025	12.30	CARE BBB; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	19.82	CARE BBB; Stable / CARE A3+

**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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	12.30	CARE BBB; Stable	1)CARE BBB-; Stable (01-Apr-21)	-	-	-
2	Fund-based - LT/ST-Cash Credit	LT/ST*	19.82	CARE BBB; Stable / CARE A3+	1)CARE BBB-; Stable / CARE A3 (01-Apr-21)	-	-	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated facilities:** None

**Annexure-4: Complexity level of various instruments rated for this Company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**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.careedge.in](http://www.careedge.in). Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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