

Omnitech Engineering Private Limited

March 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	50.23 (Enhanced from 12.30)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	35.00 (Enhanced from 19.82)	CARE BBB; Stable / CARE A3+	Reaffirmed
Short Term Bank Facilities	2.50	CARE A3+	Assigned

Details of facilities in Annexure -1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Omnitech Engineering Private Limited (Omnitech) continue to derive 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 and geographically diversified revenue profile. The ratings also factors in its healthy profitability with comfortable debt coverage indicators, though capital structure had moderated with increased working capital borrowings and term loans availed to support its growing scale of operations in FY22 (FY refers to period from April 01 to March 31) as well as 9MFY23 (Unaudited).

The ratings are, however, continue to remain constrained due to its growing albeit moderate scale of operations and tangible net worth base, 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. The ratings also factors in project risk associated with large sized debt funded on-going expansion capex.

Key Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Significant growth in its scale of operations with total operating income (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 Factor

- 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

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term ratings of Omnitech is "Stable" considering the stable growth in demand of its products and company having established relations with reputed customer base that would enable company to sustain its healthy profitability over the medium term.

Key Rating Strengths

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 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

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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.

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 large product offering of more than 4000 products as on December 31, 2022. During FY22, Omnitech has installed new machineries of ~Rs.22 crore which includes 10 vertical machining centers (VMC) machines, 14 computer numerical control (CNC) turning machines and some miscellaneous machineries and the same were funded through term loans from financial institutions to the tune of Rs.4.57 crore and balance through internal accruals to support its growth.

Reputed customer base along with geographically diversified revenue profile

Omnitech is primarily engaged in exports of the precision components and 77% of its TOI came from exports in FY22 (71% in FY21). 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 55% of its total income in FY22 [65% in 9MFY23].

Healthy profitability

Omnitech is essentially into manufacturing of precision components for various industries which are critical in nature, and hence, commands a healthy profit margins on the same. In addition to that since the company caters to reputed customers in the USA and the Europe and provides just in time services as well which results in better sales realization. The company's PBILDT margin had shown improving trend and remained healthy at 35.89% in FY22 [31.03% in FY21]. Same remained healthy at 33.30% in 9MFY22 (UA) [35.50% in 9MFY22 (UA)]. With growing scale and addition of new machines with better efficiency as well as new product resulted in better margins, and subsequently, return ratios of the company also remained healthy with ROCE and RONW of over 40% in FY22. Going forward, CARE expected PBILDT margin to remain around 30% in near term.

Comfortable debt coverage indicators though moderation in capital structure

Capital structure of Omnitech had moderated as marked by its overall gearing ratio of 0.85 times as on March 31, 2022 and 0.92x as on December 31, 2022 as compared to 0.59 times as on March 31, 2021 on account of increase in term loans towards purchase of new plant and machineries and increase in working capital borrowings to support its growing scale of operations. Also, promoters had repaid unsecured loans of Rs.10 crore during 9MFY23 with reduction in amount to be kept as subordinated USL's as per latest sanction terms.

The debt coverage indicators of Omnitech also remained at comfortable level as marked by PBILDT Interest coverage ratio of 8.43 times (PY: 8.73 times) and total debt / GCA (TDGCA) of 1.61 years [PY: 1.60 years] in year ended on March 31, 2022. Interest coverage also remained healthy at 7.39 times [PY: 16.59 times] and low TDGCA of 1.66 times [PY: 2.15 times] for the nine months ended on December 31, 2022 (UA).

Key Rating Weaknesses

Growing albeit moderate scale of operations and net worth base

Omnitech's TOI grew by healthy compounded annual growth rate (CAGR) of ~28% in past five years ended FY22 and it almost doubled in FY22 as compared to FY21 as envisaged on the back of increase in demand of its products from existing customers as well as addition of new customers in its client portfolio, though it continued to remain moderate at Rs.129.13 crore in FY22. TOI further grew by ~60% Y-o-Y and remained at Rs.135.90 crore in 9MFY23 (UA).

Omnitech's tangible net worth (TNW) base augmented on the back of accretion of profits into reserves, though remained moderate at Rs.59.29 crore as on March 31, 2022 [Rs.72.96 crore as on December 31, 2022] which includes unsecured loans from promoters to the tune of Rs.25 crore as quasi equity as on March 31, 2022 [Rs.15 crore as on December 31, 2022 (UA)] as the same were subordinated to the bank debt as per bank sanctioned letter terms.

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 a 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; though Omnitech has price escalation

clause and terms for fixation of foreign exchange rates present in many of its sales contracts. Though, 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. All these resulted into an elongated working capital cycle, and resultantly, elongated gross current asset days of 138 days and 257 days respectively in FY22 (143 days and 235 days respectively in FY21).

On-going debt funded capex

Omnitech is executing a debt funded expansion project which is expected to be completed by end of Q2FY24. The company is expanding its manufacturing capacity at nearby location considering increase in scale of operations and growing demand from the user industries. As global customers are looking for high accuracy components, Omnitech is buying machines to manufacture incremental accurate components with low cycle time as a part of the said project. The total cost of project is envisaged at Rs.52.97 which is proposed to be funded through term loan of Rs.39.50 crore and balance Rs.13.47 crore through internal accruals. Till February 28, 2023, the company has incurred total cost of ~Rs.18.00 crore which was funded by term loan of ~Rs.12 crore and rest through internal accruals. Considering early stage of completion of the project (i.e. ~33% of total envisaged cost incurred) with high DER of 2.64 times coupled with relatively large size (i.e. envisaged project cost remain ~92% of Omnitech's TNW as on March 31, 2022), timely completion and stabilization of the project remain key rating monitorable.

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 and through implicit forex hedging terms in sales contract, though it has not devised any formal foreign exchange hedging policy, which resulted in forex gain/loss in past. During FY22, company reported forex gain of Rs.1.57 crore as compared to Rs.0.90 crore in FY21. Thus, its profitability is susceptible to any adverse fluctuations in forex rates.

Liquidity: Adequate

Omnitech has adequate liquidity position marked by healthy cash accruals vis-à-vis moderate repayment obligations, moderate liquidity ratios coupled with moderate working capital limit utilization.

The current ratio of the company remained moderate at 1.48 times as on March 31, 2022 which reduced from 2.00 times as on March 31, 2021 on account of increase in working capital borrowings and creditors as on March 31, 2022. Omnitech is expected to generate cash accruals of 35-45 crore in FY23-FY25 as against scheduled debt repayment obligations of Rs.6-11 crore during same time period. Furthermore, the company's average fund based working capital utilization remained moderate at around 59% p.a. in last 12 months ended in January, 2023. Unencumbered cash and bank balance increased and remained at Rs.5.00 crore as on March 31, 2022 [Rs.3.74 crore as on December 31, 2022 (UA)]; while cash flow from operations (CFO) remained stable at moderate level of Rs.8.26 crore in FY22 [PY:8.36 crore].

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the Company and Industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other industrial products

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 (Rs. crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	64.16	129.13	135.90
PBILDT	19.91	46.35	45.25
PAT	6.76	22.54	23.67
Overall gearing (times)	0.59	0.85	0.92
Interest coverage (times)	8.73	8.43	7.39

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31/05/2031	50.23	CARE BBB; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	35.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	2.50	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	50.23	CARE BBB; Stable	-	1)CARE BBB; Stable (25-Feb-22) 2)CARE BBB-; Stable (01-Apr-21)	-	-
2	Fund-based - LT/ST-Cash Credit	LT/ST*	35.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (25-Feb-22) 2)CARE BBB-; Stable / CARE A3 (01-Apr-21)	-	-
3	Non-fund-based - ST-Loan Equivalent Risk	ST	2.50	CARE A3+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - ST-Loan Equivalent Risk	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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