Press Release

Spectron Engineers Private Limited

January 08, 2020

Rating downgraded

Total Bank Facilities Rated*	Rs. 33.00 Cr. (Enhanced from Rs.14.00 Cr)
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB/Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded its long-term rating to '**ACUITE B+**' **(read as ACUITE B plus)** from '**ACUITE BB**' **(read as ACUITE double B)** and short term rating to **'ACUITE A4' (read as ACUITE A four)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 33.00 crore bank facilities of SPECTRON ENGINEERS PRIVATE LIMITED (SEPL). The outlook is **'Stable'**.

The rating downgrade reflects challenges faced by SEPL in maintaining healthy liquidity profile reflected in persistence high level of bank limit utilization. The is majorly on account of working capital intensive nature of operations. Acuité expects this liquidity pressure to persist till the company is able to tie up for increased bank limits to commensurate with its expected growth in near to medium term.

SEPL is a Mumbai-based company incorporated in 1995. It is engaged in undertaking operation and maintenance of oil and gas fields, fabrication of industrial-grade equipment, installation and maintenance of security and surveillance systems and waste management services.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SEPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and Reputed Clientele**

The company is led by Mr. O K Varghese Chairman and Management director who possess over three decades of experience in oil and gas industry. The promoters are supported by well experienced technical team in each department. The company started with operations in oil and gas industry and expanded its operations to manufacture surveillance products and waste management services. The company in maintaining long standing relation with some of the reputed clients namely Oil India Limited, ONGC, Bharat Electronics Limited, Nuclear Power Corporation of India Limited among others. The same has reflected in repeated orders from the clients. As on 30 Nov 2019, the company has executable orders of Rs.146.65 crore to be executable in next 12-18 months period, thereby giving healthy revenue visibility in near to medium term. Acuité believes that the company will benefit from the experience of the management and long track record of operations over the medium term.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by modest net worth, moderately high gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and moderate coverage indicators. The tangible net worth stood modest at Rs.10.37 crore as on 31 March, 2019 as against Rs.9.00 crore as on 31 March, 2018. Gearing (debt-equity) has deteriorated to 2.37 times as on 31 March, 2019 from 1.87 times as on 31 March, 2018. Total debt outstanding of Rs.24.60 crore as on 31 March, 2019 comprises of long term debt of Rs.9.02 crore and short term debt of Rs.15.58 crore. The debt protection metrics of the company stood moderate marked by interest coverage ratio (ICR) and Debt/EBITDA stood at 1.84 times and 3.91 times respectively for FY2019. Debt service coverage ratio stood at 1.21 times in FY2019 as against 1.06 times in FY2018. The company has reported cash accruals of Rs. Rs1.4-2.3 crore during the last three years through FY2019 against the repayment obligations of about Rs.0.7-1.3 crore. Acuité believes the financial risk profile of the company is expected to remain moderate over the medium term on account of modest accruals.

- **Working capital intensive operations**

The company operates in working capital intensive nature marked by high Gross Current Assets (GCA) of 275 days for FY2019 as against 386 days for FY2018. This is mainly on account of high debtor days. Debtors stood high at 144 days in FY2019. Of the total debtors of Rs.16.33 crore as on 31 March, 2019, around 27 percent of debtors are more than six months. Inventory cycle stood moderate at 81 days in FY2019 as against 124 days in FY2018. The same has led to high utilisation of bank lines for the last twelve months through November 2019 and intermittent overdraws in working capital limits.

Liquidity Position: Stretched

The company's liquidity is stretched marked by working capital intensive nature of operations and moderate cushion in repayments. The net cash accruals stood modest at Rs.1.4-2.3 crore for the last three years through FY2019 as against the repayment obligations of around Rs.0.7-1.3 crore over the same period. The net cash accruals are expected to be in the range of around Rs.3-4 crore for FY2020-FY2020 against the repayment obligations of Rs.2-2.5 crore during the same period. The operations of the company are working capital intensive marked by high GCA days of 275 days in FY2019. This has led to full utilisation of bank lines for the last twelve months through November 2019 and intermittent overdraws in working capital facility. The cash and bank balances of the company stood at Rs.0.46 crore as on March 31, 2019. Going forward, Acuité believes the liquidity of the company will remain stretched due to modest accruals and working capital intensive nature of operations.

Rating Sensitivities

- Improvement in revenues and timely execution of contracts without any cost overrun.
- Elongated working capital cycle.

Outlook: Stable

Acuité believes that SEPL will maintain Stable outlook over the medium term from its experienced management and long track record of operation. The outlook maybe revised to 'Positive' in case the company registers higher than expected growth in revenues while maintaining stable profitability margins and significant improvement in working capital. Conversely, the outlook maybe revised to 'Negative' in case the company fails to achieve the projected revenues or in case of stretch in working capital cycle leading to deterioration in company financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	41.32	27.24
PAT	Rs. Cr.	1.37	0.78
PAT Margin	(%)	3.31	2.87
Total Debt/Tangible Net Worth	Times	2.37	1.87
PBDIT/Interest	Times	1.84	1.54

Any other information

Not Applicable

Material Covenants

As per bank sanction letter, the company should maintain current ratio of 1.25 times

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Entities In Services Sector - https://www.acuite.in/view-rating-criteria-50.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Feb-2019	Cash Credit	Long Term	INR 5.00	ACUITE BB (Issuer Not Co-operating)
	Letter of Credit	Short Term	INR 9.00	ACUITE A4+ (Issuer Not Co-operating)
11-Dec-2017	Cash Credit	Long Term	INR 5.00	ACUITE BB (Issuer Not Co-operating)
	Letter of Credit	Short Term	INR 9.00	ACUITE A4+ (Issuer Not Co-operating)
22-Oct-2016	Cash Credit	Long Term	INR 5.00	ACUITE BB / Stable (Reaffirmed)
	Letter of Credit	Short Term	INR 9.00	ACUITE A4+ (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE B+ / Stable (Downgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+ / Stable (Assigned)
Bank Guarantee cum Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Downgraded)

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.