

Press Release

Spectron Engineers Private Limited

June 04, 2020



Rating Upgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BB-**' (read as ACUITE Double B Minus) from '**ACUITE B+**' (read as ACUITE B plus) and short term rating to '**ACUITE A4+**' (read as ACUITE A four plus) from '**ACUITE A4**' (read as ACUITE A four) on the Rs. 33.00 crore bank facilities of Spectron Engineers Private Limited (SEPL). The outlook is '**Stable**'.

The rating upgrade takes into account the growth in revenues about 35 percent during FY2020 (provisional), stable EBIDTA margin about 15% during last two fiscals and improvement in its liquidity position and debt coverage indicators.

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 31 March 2020, the company has executable orders of Rs.225 crore to be executable in next 12-18 months period, thereby giving healthy revenue visibility in near to medium term.

Acuité believes that the promoter's experience, vintage of operations, reputed clientele are expected to support in improvement of its business risk profile 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. The company has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing (debt-equity) and total outside liabilities to tangible networth (TOL/TNW) levels of 2.37 times and 2.95 times as on March 31, 2019. The company incurred capex of Rs.4.38 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period has been around Rs.16crore to support the increase in scale of

operations. SEPL's moderate cash accruals to the tune of Rs. Rs1.40-2.30 crore during the last three years through FY2019 against the repayment obligations of about Rs.0.70-1.30 crore. Its's cash accruals over the next two years through FY2020-FY2022 are estimated to remain in the range of Rs.4.00-5.50 crores which are comfortable to service its repayment obligations about Rs.2.00-2.50 crore.

The company has reported turnover grew by around 51 percent in FY2019 to Rs.41.32 crore in FY2019 as against Rs.27.24 crore for FY2018 while its operating margins were moderate/remained stable in the range of 15 per cent. Further The Company has reported turnover grew by around 35 percent in fiscal 2020 (provisional) to Rs.57 crore as against Rs.41.32 crore for FY2019. The moderate profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.09 times and 1.84 times, respectively vis-à-vis 0.07 times and 1.54 times, respectively in FY2018. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

• **Working capital intensive operations**

The company has high working capital intensive nature of its operations marked by high Gross Current Assets (GCA) of 275 days for FY2019 as against 386 days for FY2018. This is mainly on account of peculiar nature of business and necessary to meet the orders in hand leads to elongated working capital cycle. Debtors stood high at 144 days in FY2019 as against 187 days in FY2018. Inventory cycle stood moderate at 81 days in FY2019 as against 124 days in FY2018. On the other hand, the company gets a credit period from its suppliers, leading to higher reliance on working capital limits 161 days for FY2019 and its bank limits are utilised at 78 percent for the last six months through March 2020. Acuité expects the operations of the company to remain working capital intensive on account of the high inventory and Debtors levels maintained by the company continue to remain on the same level over the medium term.

Liquidity Position: Adequate

The company's liquidity profile is adequate marked by sufficient net cash accruals against its maturing debt obligations. SEPL's moderate cash accruals to the tune of Rs. Rs1.40-2.30 crore during the last three years through FY2019 against the repayment obligations of about Rs.0.70-1.30 crore. Its's cash accruals over the next two years through FY2020-FY2022 are estimated to remain in the range of Rs.4.00-5.50 crores which are comfortable to service its repayment obligations about Rs.2.00-2.50 crore. The current ratio of the company stands at 1.21 times as on March 31, 2019. The company has high working capital intensive nature of its operations marked by high Gross Current Assets (GCA) of 275 days for FY2019 as against 386 days for FY2018 and its bank limits are utilised at ~78 percent for the past 6 months ended in March, 2020. The cash and bank balances of the company stood at Rs.0.46 crore as on March 31, 2019. Acuité believes that the liquidity of the company is likely to adequate over the medium term on account of growth in revenues about 35 percent during FY2020 (provisional), healthy and stable EBIDTA margin about 15% result in improvement in its liquidity position.

Rating Sensitivities

- Improvement in revenues and timely execution of contracts without any cost overrun.
- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Sustenance and improvement of their liquidity position
- Elongated working capital cycle.

Outlook: Stable

Acuité believes the outlook of SL will remain 'Stable' over the medium term backed by its long track record of operations, strong business profile, strong order book and healthy financial risk profile. The outlook may be revised to 'Positive' if the company is able to ramp up its scale of operations significantly while maintaining its profitability margins at current levels thereby resulting in enhanced cash accruals and better liquidity position and significant improvement in working capital. Conversely, the outlook may be revised to 'Negative' in case of a further deterioration in its revenue levels or a significant drop in its profitability margin or further 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

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Jan-2020	Cash Credit	Long Term	13.00	ACUITE B+ /Stable (Downgraded from ACUITE BB/Stable)
	Proposed Bank Facility	Long Term	10.00	ACUITE B+ /Stable (Assigned)
	Bank Guarantee cum Letter of Credit	Short Term	10.00	ACUITE A4 (Downgraded ACUITE A4+)
07-Feb-2019	Cash Credit	Long Term	5.00	ACUITE BB (Issuer Not Co-operating)
	Letter of Credit	Short Term	9.00	ACUITE A4+ (Issuer Not Co-operating)
11-Dec-2017	Cash Credit	Long Term	5.00	ACUITE BB (Issuer Not Co-operating)
	Letter of Credit	Short Term	9.00	ACUITE A4+ (Issuer Not Co-operating)

***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 BB-/Stable (Upgraded from ACUITE B+/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)
Bank Guarantee cum Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Upgraded from ACUITE A4)

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About Acuité Ratings & Research:

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