

Press Release

Spectron Engineers Private Limited

August 23, 2021

Rating Upgraded and Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double BB**) from **ACUITE BB-** (read as **ACUITE BB minus**) and reaffirmed the short term rating of '**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**'.

Reason for rating upgrade

The rating upgrade takes into account the improvement in the business risk profile of SEPL. The revenues have increased at compounded annual growth rate (CAGR) of around ~29 percent through the last four years ended 31 March, 2021. The company reported revenue growth of 31.27 percent with operating income of Rs. 74.29 crore in FY2021 (Prov.) as against operating income of Rs.56.59 crore in FY2020. Further, gearing improved to 1.91 times as on March 31, 2021 (Prov.) from 2.37 times as on March 31, 2019. ICR improved to 2.48 times in FY2021 (Prov.) against 2.11 times in FY2020 due improvement in overall profitability. Acuite believes that the company will be able to sustain the business risk profile over the medium term on account of healthy order book position.

About the rated entity

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

Acuite 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 2021, the company has executable orders of Rs.232.83 crore to be executed in next 12-18 months period, thereby giving healthy revenue visibility in near to medium term.

Acuite 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 company stood moderate as reflected by moderate net worth, average gearing and coverage indicators. The tangible net worth of the company stood at Rs.15.03 crore as on March 31, 2021 (prov.) as against Rs. 12.27 crore as on March 31, 2020. The gearing and TOL/TNW stood at 1.91 times and 2.70 times as on March 31, 2021 (prov.), as against 2.03 times and 2.90 times respectively as on March 31, 2020. Total debt of Rs. 28.64 crore as on March 31, 2021 (prov.) consist of term loans of Rs.16.02 crore (including CPLTD) and short term debt of Rs. 12.62 crore. The gearing for FY 2021 (provisional) is likely to remain moderate over the medium term. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.48 times and 0.14 times, respectively, for FY2021 (prov.) as against 2.11 times and 0.13 times, respectively, in FY2020.

Acuite believes that the financial risk profile is expected to remain moderate over the medium term in absence of any major debt funded capex plan.

• Working capital intensive nature of operations

The working capital operations are highly intensive marked by gross current asset (GCA) days which stood at 231 days in FY2021 (prov.) and 249 days in FY2020 which are mainly dominated by the receivables from customers. The receivable days of the company stood high at 165 days as on March 31, 2021 (prov.) and 136 days as on March 31, 2020 respectively. The debtor days were high in FY2021 due to delays in payments clearances on account of admin offices of clients being closed in the wake of covid-19 outbreak. Generally, the company has 90-120 days debtor policy with clients. The company's inventory levels were low in FY2021 (prov.) at 27 days vis-à-vis 46 days as on March 31, 2020. The bank limit utilization remains moderate at about 87.00 per cent for the last 14 months ended March 31, 2021.

Rating Sensitivities

- 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.

Material Covenants

None

Liquidity Position: Adequate

The Liquidity profile of the company stood adequate marked by net cash accruals of Rs. 2.30- Rs.3.91 crores as against Rs.2.10 – Rs.3.00 crores repayment obligation during FY2019-2021 (prov.). The net cash accruals are expected to remain in range of ~Rs.5.00 – Rs.7.50 crores through FY22-24 as against debt repayment obligation of Rs. 3.00- Rs.3.00 crore during the same period. The cash and bank balance stood at Rs. 1.33 crores and current ratio of the company stood at 1.93 times as on March 31, 2021 (prov.). The bank limit utilization remains moderate at about ~68.00 per cent for the last 14 months ended March 31, 2021. The available unutilized credit line, current cash & bank balance as well as net cash accruals provide adequate cushions of debt obligations as well as other day to day requirement. Further, timely realisations of receivables would further enhance the working capital management and current liquidity position of the company.

Outlook: Stable

Acuite 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 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	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	74.29	56.59
PAT	Rs. Cr.	2.76	1.90
PAT Margin	(%)	3.71	3.36
Total Debt/Tangible Net Worth	Times	1.91	2.03
PBDIT/Interest	Times	2.48	2.11

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service 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
04-Jun-2020	Cash Credit	Long Term	13.00	ACUITE BB-/Stable (Upgraded from ACUITE B+/stable)
	Proposed Bank Facility	Long Term	10.00	ACUITE BB-/Stable (Upgraded from ACUITE B+/stable)
	Bank Guarantee cum Letter of Credit	Short Term	10.00	ACUITE A4+ (Upgraded from ACUITE A4)
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 from 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)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)
ICICI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)
Not	Proposed Bank	Not	Not	Not	2.00	ACUITE BB/Stable

Applicable	Facility	Applicable	Applicable	Applicable		(Upgraded from ACUITE BB-/Stable)
Union Bank of India	Bank Guarantee cum Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Reaffirmed)
ICICI Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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