

Press Release

Spectron Engineers Private Limited

December 14, 2022



Rating Assigned, Reaffirmed and Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.50	ACUITE BB Reaffirmed & Withdrawn	-
Bank Loan Ratings	2.00	ACUITE BB Stable Assigned	-
Bank Loan Ratings	20.00	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	6.00	-	ACUITE A4+ Assigned
Bank Loan Ratings	13.00	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	3.50	-	ACUITE A4+ Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	41.00	-	-
Total Withdrawn Quantum (Rs. Cr)	8.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and 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**'.

Acuite has also assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.8.00 crore bank facilities of Spectron Engineers Private Limited (SEPL). The outlook is '**Stable**'.

Acuite has also reaffirmed and withdrawn the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.8.00 crore bank facilities of Spectron Engineers Private Limited (SEPL). The rating is being partially withdrawn on account of request received from the client and No dues certificate received from the banker. The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating.

Rationale for rating reaffirmation

The rating reaffirmation takes into account SEPL's moderate financial risk profile along with experienced management and established track record of operations. The rating also draws comfort from company's reputed clientele over the years. The rating is however constrained by the company's stagnant revenue for the last two years with declining operating profitability and highly working capital intensive operations. Nonetheless, the ability of the company to improve its scale of operations while improving its operating profitability and

efficient management of working capital cycle over the medium term will continue to remain a key rating sensitivity factor going ahead.

About the Company

SEPL incorporated in the year 1995, 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. The company has its registered office located in Mumbai, Maharashtra.

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 with an established track record of operations and reputed clientele

SEPL has an established track of operations of more than two decades and it is led by Mr. O K Varghese, Chairman & Managing Director, who possess over three decades of experience in the oil and gas industry. He is further supported by other directors and its well experienced technical team in each department. The company started its operations in oil & gas industry and later expanded its operations into manufacture of surveillance products and waste management services. The company is maintaining long standing relations with some of its reputed clients namely Oil India Limited, ONGC, Bharat Electronics Limited, Nuclear Power Corporation of India Limited amongst others.

Acuité believes that SEPL's experienced management with an established track record of operations and its reputed clientele are expected to support in improvement of its business risk profile over the medium term.

Moderate financial risk profile

Financial risk profile of SEPL is moderate marked by moderate network, low gearing and average debt protection metrics. The network of the company has improved and stood moderate at Rs.21 Cr as on 31 March, 2022 as against Rs.18 Cr as on 31 March, 2021 on account of moderate accretion to reserves. The gearing (debt-equity) improved yet remain moderate at 1.35 times as on 31 March, 2022 as against 1.54 times as on 31 March, 2021. The gearing of the company is however expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt outstanding of the company stood at Rs.28 Cr as on 31 March, 2022 which majorly consists of long term bank borrowings of Rs.13 Cr and short term bank borrowings of Rs.15 Cr.

The interest coverage ratio remains moderate at 2.49 times for FY2022 as against 2.36 times for FY2021 while the DSCR stood deteriorated to 1.71 times for FY2022 as against 2.03 times for FY2021. The Net Cash Accruals to Total debt stood at same level of 0.14 times for FY2022 and FY2021. The Total outside liabilities to Tangible net worth stood improved at 2.20 times for FY2022 as against 2.56 times for FY2021.

Acuité believes that the financial risk profile of SEPL will remain moderate over the medium term on account of low debt levels vis-à-vis moderate tangible net worth and average debt protection metrics.

Weaknesses

Stagnant revenue and declining operating profitability

SEPL reported stagnant revenue of Rs.74.38 Cr for FY2022 and Rs.73.99 in FY2021, on account of executing less orders during the year considering the impact of covid induced restrictions. Due to the same, the supply of various equipments like Gas meters, Gas detectors and other security and surveillance systems which are imported from countries like USA, Israel & China

were affected and due to which the company was not in a position to complete the required orders of installation and maintenance of these equipments at various sites of its projects. In addition to this, the site clearance issues and pending major civil works of company's clients has also resulted in executing less orders during the year. The unexecuted order book of the company as on 31st October 2022 stands at Rs.165 Cr which provides moderate revenue visibility over the near term.

Further, the operating margin of the company also declined to 10.28 percent in FY2022 as against 11.45 percent in FY2021 on account of subsequent increase in employee and service costs during the year. On the other hand, the net profit margin of the company improved to 4.07 percent in FY2022 as against 3.76 percent in FY2021 on account of marginal decline in the depreciation and interest cost during the year.

Acuité believes that SEPL's ability to improve its scale of operations and operating profitability in near to medium term will remain a key rating sensitivity factor.

Working capital intensive operations

The operations of SEPL are working capital intensive in nature marked by high Gross Current Assets (GCA) of 215 days for FY2022 as against 202 days for FY2021. The high GCA days is majorly on account of high receivables days during the same period which stood at 126 days for FY2022 as against 130 days for FY2021. In general, the company provides credit period of upto 60 to 90 days to its customers for making the payment, however depending upon the nature of the work and the site clearance issues of the various projects, the realisation of receivables was impacted. Due to which the creditors also get stretched and it stood at 210 days for FY2022 as against 101 days for FY2021. On the other hand, the inventory cycle of the company stood lower at 8 days for FY2022 as against 10 days for FY2021.

Acuité believes that SEPL's ability to improve its working capital cycle over the medium term will remain a key rating sensitivity factor.

Rating Sensitivities

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Improvement in working capital cycle

Material covenants

None

Liquidity position - Adequate

SEPL has adequate liquidity position marked by adequate net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.3 Cr to Rs.4 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.1 Cr to Rs.2 Cr during the same period. Going forward the NCA are expected in the range of Rs.4 Cr to Rs.5 Cr for period FY2023-FY2024 against its repayment obligation of upto Rs.2 Cr for the same period. The working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 215 days for FY2022 as against 202 days for FY2021 on account of high receivables cycle during the same period. The average bank limit utilization for 6 months' period ended September 2022 stood moderate at ~63 percent. Current ratio stands at 1.29 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.5 Cr in FY2022.

Acuité believes that the liquidity of SEPL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that SEPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations and its reputed clientele. The outlook may be revised to 'Positive' in case of significant and sustained growth

in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	74.38	73.99
PAT	Rs. Cr.	3.02	2.78
PAT Margin	(%)	4.07	3.76
Total Debt/Tangible Net Worth	Times	1.35	1.54
PBDIT/Interest	Times	2.49	2.36

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Sep 2021	Cash Credit	Long Term	13.00	ACUITE BB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.00	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BB Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	3.50	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	2.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Reaffirmed)

23 Aug 2021	Cash Credit	Long Term	13.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Cash Credit	Long Term	4.50	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Bank Guarantee	Short Term	3.50	ACUITE A4+ (Reaffirmed)
04 Jun 2020	Proposed Bank Facility	Long Term	10.00	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Cash Credit	Long Term	13.00	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Upgraded from ACUITE A4)
08 Jan 2020	Proposed Bank Facility	Long Term	10.00	ACUITE B+ Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A4 (Downgraded from ACUITE A4+)
	Cash Credit	Long Term	13.00	ACUITE B+ Stable (Downgraded from ACUITE BB)
07 Feb 2019	Letter of Credit	Short Term	9.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE BB (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE A4+ Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE A4+ Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A4+ Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.50	ACUITE BB Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.00	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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