



Press Release
Spectron Engineers Private Limited
March 13, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.00	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	19.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	41.00	-	-

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.41.00 crore bank facilities of Spectron Engineers Private Limited (SEPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation considers SEPL's stable operating and financial performance marked by improvement in operating income and profitability margins and moderate financial risk profile. The company's operating income stood at Rs. 80.80 Cr. in FY2023 as against Rs. 74.38 Cr. in FY2022. The operating margins improved and stood at 11.13 percent in FY2023 as against 10.28 percent in FY2022. The overall gearing of the company improved and stood at 1.28 times as on March 31, 2023 as against 1.35 times as on March 31, 2022. The debt to EBITDA and interest coverage stood at 3.30 times and 3.08 times respectively in FY2023 as against 3.10 times and 1.35 times respectively in FY2022. The rating also draws comfort from company's reputed clientele over the years. The rating is however constrained by company's working capital intensive nature of operations and slow moving orderbook. 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. The company is being directed by Ms. Meena Varghese Ollukaran, Mr. Ollukaran Kanjipallu Varghese and Mr. Spencer Ollukaran Varghese.

Unsupported Rating

Not Applicable

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 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.

Stable operating performance

The company's operating income stood at Rs. 80.80 Cr. in FY2023 as against Rs. 74.38 Cr. in FY2022. Out of which ~50-60% of the revenue is generated from Oil India Limited, underlying client concentration risk, which is partly mitigated due to long standing relations of SEPL with Oil India Limited. SEPL has been receiving orders from Oil India Limited for more than fifteen years. As on February 1, 2024, the outstanding orderbook of the company stood at Rs.297.55 Cr. however a significant proportion constitutes of slow moving orders. The operating margins improved and stood at 11.13 percent in FY2023 as against 10.28 percent in FY2022. Acuité believes the company's ability to improve its scale of operations and maintain its profitability margins shall remain a key rating monitorable.

Moderate Financial Risk Profile

Financial risk profile of SEPL is moderate marked by moderate net worth, low gearing, and average debt protection metrics. The net worth of the company has improved and stood moderate at Rs.23.73 Cr. as on 31 March 2023 as against Rs.20.50 Cr. as on 31 March 2022 on account of moderate accretion to reserves. The gearing (debt-equity) stood improved at 1.28 times as on 31 March 2023 as against 1.35 times as on 31 March 2022. The gearing of the company is however expected to improve and remain low over the medium term in absence of any debt funded capex plans in the future. The total debt of Rs.30.29 Cr. as on 31 March 2023 consists of long-term bank borrowings of Rs.10.49 Cr. and short-term bank borrowings of Rs.19.80 Cr. The interest coverage ratio stood improved at 3.08 times for FY2023 as against 2.49 times for FY2022 while the DSCR stood lower at 1.66 times for FY2023 as against 1.71 times for FY2022. The Net Cash Accruals to Total debt stood at a similar level of 0.15 times for FY2023 against 0.14 times in FY2022. The Total outside liabilities to Tangible net worth stood improved at 2.06 times for FY2023 as against 2.20 times for FY2022.

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

Working capital intensive operations

The operations of SEPL are highly working capital intensive marked by its Gross Current Assets (GCA) of 224 days for FY2023 as against 215 days for FY2022 on account of high receivables cycle during the same period which stood at 164 days for FY2023 as against 126 days for FY2022. In general, the company provides credit period of 30 to 60 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 receivables get stretched. Due to which the creditors also get stretched and it stood at 166 days for FY2023 as against 210 days for FY2022. The inventory cycle of the company stood higher at 12 days for FY2023 as against 8 days for FY2022.

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.

Tender based nature of operations and competitive industry

The revenue of the company is highly dependent on the number and value of tenders floated by its customers. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. Albeit the slow moving orders, SEPL has recently new orders worth ~Rs. 88 Cr in FY2024. Acuite believes this demonstrates the company's ability to receive new orders however, timely execution of orderbook and improving the scale of operations and maintaining the profitability margins will remain key rating sensitivity factors.

Rating Sensitivities

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

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.4.7 Cr. during FY2021 to FY2023 against its repayment obligation in the range of Rs.0.80 Cr. to Rs.1.60 Cr. during the same period. The company is expected to generate net cash accruals in the range of Rs.4.5-5.65 Cr. in the period FY24-25 against repayment obligations of Rs. 1.2-1.5 Cr. for the same period. The working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 224 days for FY2023 as against 215 days for FY2022 on account of high receivables cycle during the same period. Current ratio stands at 1.30 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.2 Cr. in FY2023.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	80.80	74.38
PAT	Rs. Cr.	3.29	3.02
PAT Margin	(%)	4.07	4.07
Total Debt/Tangible Net Worth	Times	1.28	1.35
PBDIT/Interest	Times	3.08	2.49

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>
- 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
14 Dec 2022	Bank Guarantee (BLR)	Short Term	3.50	ACUITE A4+ (Reaffirmed & Withdrawn)
	Term Loan	Long Term	2.00	ACUITE BB Stable (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	13.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	6.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BB Not Applicable (Reaffirmed & Withdrawn)
16 Sep 2021	Bank Guarantee (BLR)	Short Term	3.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	10.00	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	2.00	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BB Stable (Reaffirmed)
23 Aug 2021	Bank Guarantee (BLR)	Short Term	3.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	10.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Cash Credit	Long Term	13.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Proposed Long Term Bank Facility	Long Term	2.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	19.00	ACUITE A4+ Reaffirmed
Union Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BB Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Oct 2024	Simple	0.70	ACUITE BB Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2026	Simple	1.30	ACUITE BB Stable Reaffirmed

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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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